2006 Annual Report

The Regional Municipality of Durham
Ontario, Canada
for the year ended December 31, 2006

2006 Annual Report

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DURHAM REGION

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R. J. Clapp, CA
Treasurer and
Commissioner of
Finance

Dear Sir/Madam:

For your information, I have attached a copy of the Regional Municipality of Durham Annual Report for the year ended December 31, 2006. The report includes introductory information, the Region's audited financial statements and a five-year statistical review. Additional copies are available by contacting my office. The report can also be found on Durham's web-site at www.region.durham.on.ca.

Yours truly,

R.J. Clapp, CA
Commissioner of Finance

Encl.

"Service Excellence for our Communities"

100% Post Consumer

2006 Annual Report

The Regional Municipality of Durham

Ontario, Canada

for the year ended December 31, 2006

The Regional Municipality of Durham
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This document was produced by the Finance Department, Regional Municipality of Durham

Welcome to

Durham Region

Abundant resources, an enviable lifestyle, and first-class transportation networks create an ideal location for residents, commerce, and industry. It is no wonder that the Region of Durham is enjoying sustained growth.

The Regional Municipality of Durham lies along a continuous urbanized lakeshore and shares prime access to the Great Lakes and northeastern markets of the continent, encompassing over 120 million people. Durham is situated immediately east of the City of Toronto, and includes eight local area municipalities: the Cities of Oshawa and Pickering; the Towns of Ajax and Whitby; the Municipality of Clarington; and the Townships of Brock, Scugog and Uxbridge.

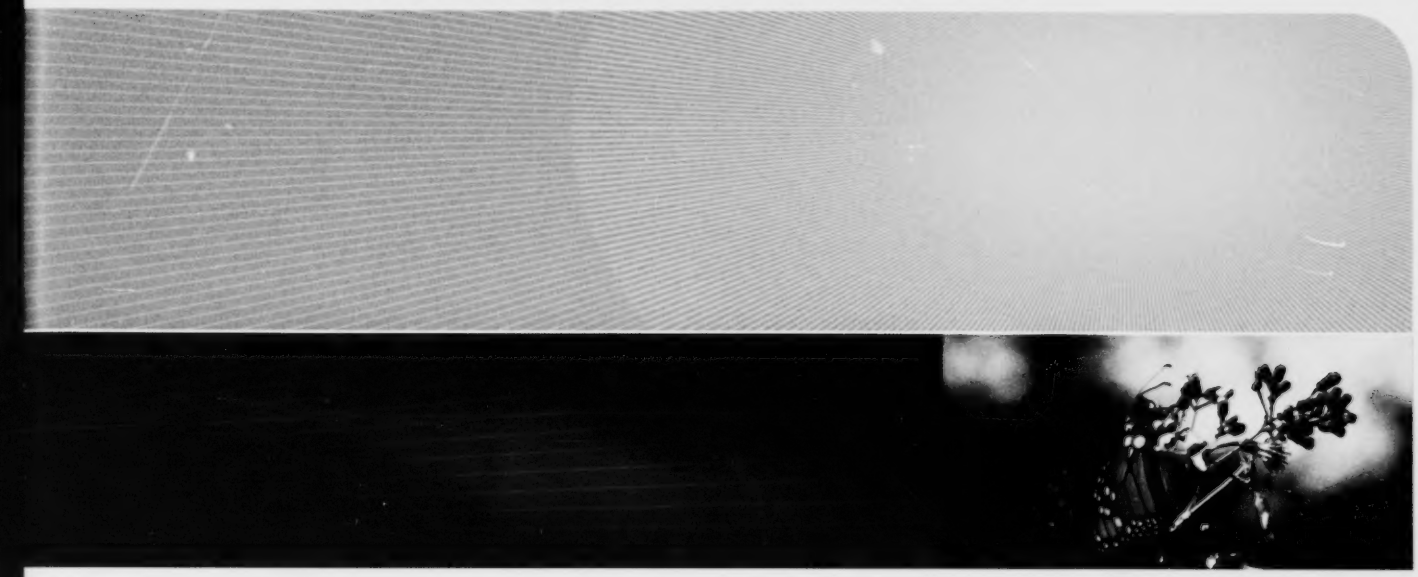
The area is well known as an economic powerhouse, and in particular is recognized for the strength of its manufacturing sector, which has recently undergone a period of rapid diversification. High quality municipal services and excellent transportation networks, public utilities, and social, educational, and health infrastructures support the mix of urban and rural lifestyles in the Region of Durham.

Key Economic Sectors

- Automotive
- Energy and Utility
- Advanced Manufacturing
- Agriculture and Horticulture
- Transportation
- Education and Health
- Tourism and Entertainment

Durham Region, with all the attributes of a modern metropolitan area, is also fortunate to have a young and skilled labour force. Bolstering this attribute, Durham offers a full continuum of educational services from preschool to post-secondary, including Canada's newest high-tech university, the University of Ontario Institute of Technology, which offers a range of degree programs.

Complementing the Region's position within the highly developed economic region of the Greater Golden Horseshoe, Durham continues to retain a rich culture and heritage within a variety of landscapes and urban



and rural communities. The Region's major urban lakeshore communities contrast with a variety of small towns, villages, hamlets and farms further inland. The northern portion of the Region encompasses numerous headwaters and the rolling hills and hollows of the beautiful Oak Ridges Moraine. The diverse landscape of woods, headwaters, ridges and hollows gives way to rolling bountiful farmlands and the prime recreational lands of Lake Simcoe, Lake Scugog and the Kawarthas.

Abundant resources, an enviable lifestyle, and first-class transportation networks create an ideal location for residents, commerce, and industry. It is no wonder that the Region of Durham is enjoying sustained growth.

2006 Population Estimate (at May 31, 2006)

Town of Ajax	92,090
Township of Brock	12,860
Municipality of Clarington	82,470
City of Oshawa	151,040
City of Pickering	91,800
Township of Scugog	22,715
Township of Uxbridge	20,765
Town of Whitby	116,110
Durham Region Total	589,850

Source: Durham Region Planning Department.

Note: Figures will be adjusted to reflect 2006 Census data, including undercount information, anticipated to be available from Statistics Canada in early 2008.

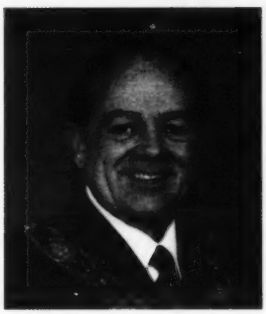
Land Area

2,535 square kilometres (979 square miles)

Durham Region is the largest geographical jurisdiction in the Greater Toronto Area (GTA), stretching from Lake Ontario in the south to Lake Simcoe in the north.

Message from the

Regional Chair

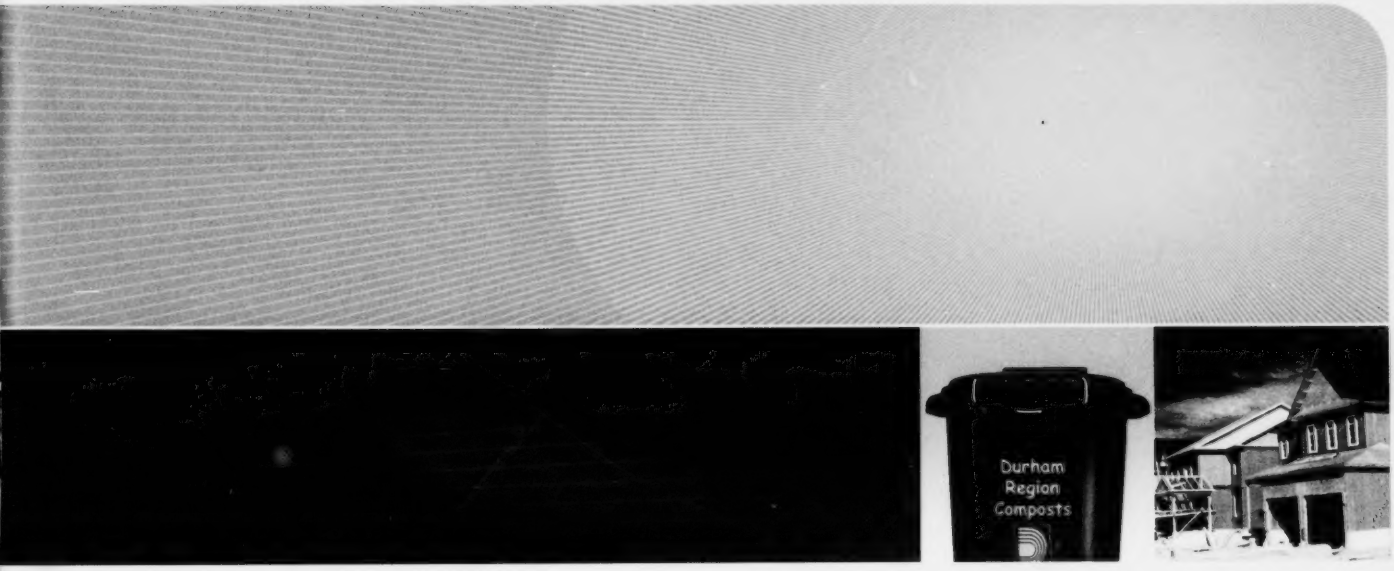


Roger Anderson
Regional Chair

Durham has experienced significant population growth and prosperity over the last decade and by 2031 our population is forecast to approach one million people, close to double the number today. A recent provincial decision to build new nuclear reactors in Ontario, including the Darlington nuclear site in the Municipality of Clarington, could also have profound implications for our Region's growth. The Region will continue to plan for the future, and Durham Regional Council has responded with major commitments to invest in core Regional infrastructure.

To facilitate the movement of people and goods through Durham, investment in Regional Road corridors continues. For example, the Region has made significant investments in the Taunton Road corridor, to widen and improve this key east-west route. Taunton Road will be a minimum of four lanes from the York-Durham Boundary to Townline Road in the City of Oshawa/Municipality of Clarington. Significant expansions are also underway in the Brock Road corridor and the Bayly-Victoria-Bloor corridor. In the past several years, Council has also allocated $10 million annually for road rehabilitation to optimize our existing road network Region-wide.

In 2006, Durham Region Transit (DRT) was a major focus. Transit will be essential to the movement of future Durham populations. We simply could not build enough roads in 25 years to support another half million people. By building our transit system strategically, as an integral part of our transportation plan, we can maximize mobility, and the return on the Regional road network.



Launching, and then improving, the transit service Region-wide has been challenging, but progress is visible. While accommodating steady growth in ridership across the board, the Region in 2006 implemented more frequent service along key corridors like Highway #2, provided new services to the north, incorporated a seamless operation of specialized services, added new peak hour services, and implemented the "One Fare Anywhere" system, among other achievements. It is an integrated, Region-wide system.

Waste management was another area of significant progress in 2006, with the expansion of the green bin waste diversion program and more frequent Blue Box recycling collection implemented in July. During the first six months of the new programs in the 'Lakeshore Four' municipalities (the Cities of Oshawa and Pickering and the Towns of Ajax and Whitby), the Region exceeded 50% waste diversion and reached 60%. In the City of Oshawa, diversion increased from 37% in 2005 to 58% in 2006 and garbage volumes dropped by 35%. The 2006 Green Bin initiative was recognized as a success by our peers, when the Ontario Public Works Association named it a "Project of the Year for Environment". Recognizing that a long-term solution for the remaining portion of residual waste is still required, Durham and York Regions partnered in an Environmental Assessment process for an Energy-from-Waste facility to deal with residual waste after aggressive diversion efforts are exhausted. This project would end the current practice of trucking our solid waste great distances to landfills in someone else's backyard.

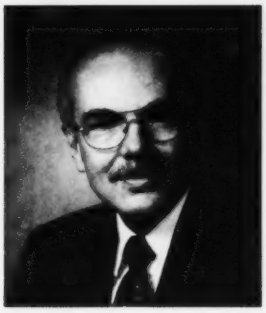
Each year, I am impressed by how much municipal government achieves, with very little real power or discretionary spending. Consider the new community facilities, roads, water and sewer infrastructure built in Durham Region over the last several years. Think of the volumes of programs delivered across our Region. We are proud of our accomplishments and timely, effective service to communities. The Region's Council remains committed to investing property tax dollars wisely and strategically to position Durham for economic success.

It's Durham's turn! It's Durham's time!

Roger Anderson
Regional Chair

Message from the

Chief Administrative Officer



Garry H. Cubitt
Chief Administrative Officer

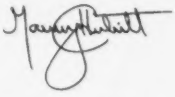
The Region of Durham had a busy, successful year in 2006. The year began with Regional Council adopting Durham's Accessibility Plan. The *Accessibility for Ontarians with Disabilities Act, 2005* includes additional requirements for the public sector to review policies, programs and services to address barriers to people with disabilities, as well as prevent new barriers from being created.

In 2002, Durham had established an Accessibility Advisory Committee that advises Regional Council on the annual Accessibility Plan and whether the organization achieves stated goals each year. In order to develop a corporate perspective for the identification and removal of barriers, Durham's accessibility planning is coordinated through the CAO's office. The Community Strategic Plan (CSP), designed to incorporate the broader community vision into specific objectives, strategic actions and results, provides a link to Durham's corporate framework. The CSP is an umbrella document and other plans, policies and strategies support it, as well as take direction from it. One of the six broad objectives of the CSP is 'Safe, Healthy and Caring Communities.' Our residents want the Region to provide services supporting a community where people with disabilities face no barriers. The collective responsibility of Council, the Accessibility Advisory Committee, and Regional staff and management is to ensure a balance of interests within the context of the legislation and broad corporate goals.

When Regional Council adopted our first Community Strategic Plan in 2003, it directed the Chief Administrative Officer to develop an implementation plan and a regular reporting process. In July 2006, Regional Council received the third annual status report, *"Growing Together: Community Strategic Plan, Annual Update, July 2006 Highlights."* It is available to the public through the Regional website, or by calling the Regional Headquarters. We really have come a long way in making key in-roads on all CSP objectives and have made the plan a living document, rather than just a record of lofty principles and goals.

The CSP is also integrated with the Region's business planning cycle and, while there is a focus on desired results, the departmental business plans and budgets serve to balance the strategic actions outlined in the CSP with available financing. While many of the CSP objectives were already components of our way of conducting business, we remain excited to move towards implementation of the vision, mission and objectives provided to us by our citizens. CSP objectives include protecting the environment, ensuring balanced growth and livable communities, supporting safe, healthy and caring communities, building the Region's economy, increasing partnerships and government effectiveness, and strengthening and integrating the transportation system. Regional Council has committed major funding to the transportation objective. Regional roads capital investment and rehabilitation efforts have been extraordinary in recent years. A major focus for 2006, Regional staff also worked tirelessly to establish a fully integrated Durham Region Transit (DRT) system. An important part of this integration of previously local transit systems, the Region signed its first new DRT collective agreement, which brought the transit workers from three previous agreements under a single Regional contract.

Good planning, effective and efficient service delivery, and public accountability are goals to which Regional staff remain committed. I am confident Regional employees are ready for 2007 and the challenges a new year may bring.



Garry H. Cubitt
Chief Administrative Officer

Region of Durham

Regional Council

Purpose

Regional Council provides leadership and direction to Regional administrative staff, who ensure citizens have access to adequate and efficiently delivered Regional services and infrastructure.

Composition

Legislative responsibility for the Regional Corporation is vested in the Regional Council, comprised of a Chair plus 28 Regional Councillors. The composition of Regional Council is designed to achieve balanced representation for the eight Local Area Municipalities of the Region.

The Mayors of the Local Area Municipalities, by virtue of their office, are also Regional Councillors, while other election candidates must declare candidacy for either a combined Regional and Local, or strictly Local office. Regional Councillors elected in November 2006 will serve a four-year term to November 2010.

Regional Chair

The Regional Chair is an ex-officio member of each Regional Standing Committee. The Regional Chair is the head of Regional Council and is the Chief Executive Officer of the Regional Corporation. The Regional Chair presides over all meetings of the Regional Council. An important function of the Regional Chair is to promote and advance the Regional position. As part of this position, the Regional Chair meets regularly with representatives and residents to ensure they are aware of issues and actions within Durham Region, and to also understand their concerns.

Boards and Agencies - 2006

Regional Council makes several appointments to outside agencies that provide services to residents of Durham Region. Regional Councillors chair or provide membership on the following committees and outside agencies:

- Accessibility Advisory Committee
- Durham Agricultural Advisory Committee
- Durham-York Joint Waste Management Group
- Durham Environmental Advisory Committee
- Business Advisory Centre Durham
- Canadian National Exhibition Association
- Central Lake Ontario Conservation Authority
- Ganaraska Region Conservation Authority
- Kawartha Region Conservation Authority
- Lake Simcoe Region Conservation Authority
- Toronto & Region Conservation Authority
- Durham Region Non-Profit Housing Corporation
- Durham Regional Local Housing Corporation
- Durham Regional Police Services Board
- 9-1-1 Management Board
- Development Charges Complaint Committee
- Duffins Creek and Carruthers Creek Watershed Resource Group
- Durham Advisory Committee on Homelessness
- Rouge Park Alliance
- GTA Agricultural Action Plan
- Greater Toronto Marketing Alliance
- Greater Toronto Transit Authority (GO Transit)
- Durham Region Child and Youth Advocate
- Greater Toronto Transportation Authority
- Durham Trail Co-ordinating Committee.

For additional information on the membership and responsibilities of these Boards, Committees and/or Authorities, please visit the Regional website at www.region.durham.on.ca or contact the Region at 905-668-7711 or toll-free at 1-800-372-1102.

Region of Durham

Regional Council 2003-2006

Front Row (L to R):

Mayor John Mutton
Municipality of Clarington

Mayor Steve Parish
Town of Ajax

Mayor John Gray
City of Oshawa

Mayor Gerri Lynn O'Connor
Township of Uxbridge

Regional Chair
Roger Anderson

Mayor Marilyn Pearce
Township of Scugog

Mayor Marcel Brunelle
Town of Whitby

Mayor David Ryan
City of Pickering

Mayor Keith Shier
Township of Brock

Middle Row (L to R):

Regional Councillor
Gerry Emm
Town of Whitby

Regional Councillor
April Cullen
City of Oshawa

Regional Councillor
Robert Lutczyk
City of Oshawa

Regional Councillor
Charlie Trim
Municipality of Clarington

Regional Councillor
Jim Schell
Municipality of Clarington

Regional Councillor
Nester Pidwerbecki
City of Oshawa

Regional Councillor
Bill McLean
City of Pickering

Regional Councillor
Joe Kolodzie
City of Oshawa

Regional Councillor
Susan Self
Township of Uxbridge

Regional Councillor
Colleen Jordan
Town of Ajax

Regional Councillor
Pat Perkins
Town of Whitby

Back Row (L to R):

Regional Councillor
Cathy Clarke
City of Oshawa

Regional Councillor
Scott Crawford
Town of Ajax

Regional Councillor
Jim McMillen
Township of Scugog

Regional Councillor
John Neal
City of Oshawa

Regional Councillor
Larry O'Connor
Township of Brock

Regional Councillor
Joe Drumm
Town of Whitby

Regional Councillor
Brian Nicholson
City of Oshawa

Regional Councillor
Maurice Brenner
City of Pickering

Regional Councillor
Rick Johnson
City of Pickering

Region of Durham

Regional Council 2006-2010

Roger Anderson
Regional Chair

Mayor Steve Parish
Town of Ajax

Regional Councillor
Scott Crawford
Town of Ajax

Regional Councillor
Colleen Jordan
Town of Ajax

Mayor Larry O'Connor
Township of Brock

Regional Councillor
April Cullen
City of Oshawa

Regional Councillor
John Henry
City of Oshawa

Regional Councillor
Joe Kolodzie
City of Oshawa

Regional Councillor
Robert Lutczyk
City of Oshawa

Regional Councillor
John Neal
City of Oshawa

Regional Councillor
Bill McLean
City of Pickering

Mayor Marilyn Pearce
Township of Scugog

Regional Councillor
Jim McMillen
Township of Scugog

Mayor Bob Shepherd
Township of Uxbridge

Regional Councillor
Howie Herrema
Township of Uxbridge

Regional Councillor
John Grant
Township of Brock

Mayor Jim Abernethy
Municipality of Clarington

Regional Councillor
Mary Novak
Municipality of Clarington

Regional Councillor
Charlie Trim
Municipality of Clarington

Mayor John Gray
City of Oshawa

Regional Councillor
Brian Nicholson
City of Oshawa

Regional Councillor
Nester Pidwerbecki
City of Oshawa

Mayor Dave Ryan
City of Pickering

Regional Councillor
Rick Johnson
City of Pickering

Regional Councillor
Bonnie Littley
City of Pickering

Mayor Pat Perkins
Town of Whitby

Regional Councillor
Joe Drumm
Town of Whitby

Regional Councillor
Gerry Emm
Town of Whitby

Regional Councillor
Don Mitchell
Town of Whitby

Regional Administration Management and Reporting Structure

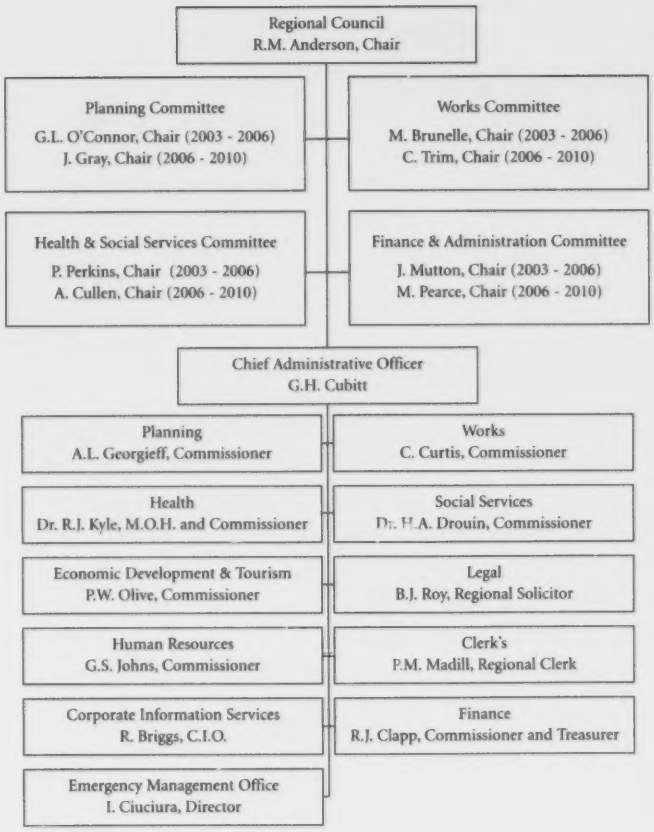
The Chief Administrative Officer (CAO) is the most senior staff person in Durham Region and reports to Regional Council. Appointed by Regional Council, the CAO ensures the implementation of Regional Council direction and policy and is responsible for the overall management of the Regional organization.

Regional Department Heads report to the CAO, who ensures coordination between Departments and any relevant outside agencies. Administrative staff, under the direction of the Department Heads and CAO, report to Regional Council through the Committee Structure.

Regional Council established four Committees, each comprised of seven Councillors and the Regional Chair. As shown in the chart, the four Standing Committees of Regional Council are:

- The Planning Committee
- The Finance and Administration Committee
- The Health and Social Services Committee
- The Works Committee

Often issues requiring deliberation will involve the jurisdiction of more than one of the Region's Standing Committees. In these cases joint committees are formed, involving two or more Standing Committees.



2006 Standing Committee

Highlights

The following represents only select lists of specific matters that were brought before Regional Council during 2006, after consideration at the Standing Committee level. For more information on any of these matters, please contact the Region at 905-668-7711 or toll free at 1-800-372-1102.

Planning Committee:

- 2006/2007 Durham Region Official Plan Review;
- The Provincial Greenbelt Act, 2005;
- The Provincial Greenbelt Plan;
- Provincial Growth Plan for the Greater Golden Horseshoe;
- Public Consultations on the draft Regional Trail Network;
- East Cross Forest Implementation Program;
- Conservation Land Securement;
- Regional Building Permit Activity Reviews;
- Central Pickering Development Plan;
- Regional Official Plan Amendment Applications;
- Monitoring of Land Division Committee Decisions;
- Subdivision/Condominium Activity Reports;
- Monitoring of Regional Growth Trends;
- Community Improvement Policies;
- Durham Region Profile: Demographics and Socio-economic Data;
- Monitoring/Response to Ontario Municipal Board and Planning Act Reforms; and,
- The Highway 407 East Environmental Assessment Study.

Works Committee

- The 2006 Roads Capital Program, including the reconstruction and widening of Taunton, Ritson, and Harmony Roads;
- The 2006 Regional Roads Resurfacing and Rehabilitation Program;
- Construction of the Brock Road/CPR subway grade separation and reconstruction of the Courtice Road CP Rail grade separation;
- Regional traffic and parking by-law consolidation;
- The 2006 Sanitary Sewerage and Water Supply Capital Program, including storage facilities, pumping stations, feedermain construction, drainage works, water supply plant upgrades, water pollution control plant upgrades and construction of the new Courtice Water Pollution Control Plant;
- Water meter replacement, repair and maintenance;
- Provincial drinking water protection regulations;
- Construction Contracts for new Regional facilities, including Long-term Care facilities;
- Waste Management Contingency Planning;
- The introduction of the new Green Bin kitchen food waste composting and weekly blue box collection program in the Cities of Pickering and Oshawa and the Towns of Whitby and Ajax; and,
- The Durham/York Residual Waste Study and Environmental Assessment.

2006 Standing Committee

Highlights

Finance and Administration Committee

- Confirmation of the Region's Triple "A" Credit Rating by Moody's Investors Service and Standard & Poor's;
- Durham Region's Premier-Ranked Tourist Destination Project;
- 2006 Current and Capital Budgets for the Water Supply System;
- 2006 Current and Capital Budgets for the Sanitary Sewerage System;
- Property Tax Guidelines and the Five-Year Economic and Financial Forecast;
- The Federal and Provincial Gas Tax Funding Programs;
- The Long-term Strategic Property Tax Plan;
- 2006 Regional Business Plans and Property Tax Budgets and Rates;
- Regional Fees and Charges Listing for 2006;
- Current Value Assessment for property taxation;
- Public Alerting Policy for the revised Provincial Nuclear Emergency Response Plan;
- Information Technology Strategic Plan;
- Land Securement Funding for Conservation Purposes;
- Durham Municipal Insurance Pool;
- Development Charges Background Study and Review;
- Durham Region Pandemic Influenza Plan;
- 2006 Provincial Business Property Tax Protection Program;
- Durham Energy Industry Cluster Study; and,
- The Municipal Performance Measurement Program.

Health and Social Services Committee

- Healthy School Bus Program and Fund and Anti-Idling Policies;
- All-terrain Vehicle Safety;
- Proposed amendments to the Highway Traffic Act;
- EMS Diagnostic and Medical Equipment Purchases;
- Best Start Integrated Implementation Plan 2006 and 2007-2008;
- Diagnostic and medical equipment for Durham's Long-term Care facilities;
- 2006 Homelessness Prevention Program;
- Paramedic student placements from Durham College and UOIT for the Region's Long-term Care Homes;
- Endorsement of Ontario Medical Association policy paper "Tuberculosis: Forgetting Again;"
- Recommendations on Provincial Regulation of Boarding or Lodging Houses;
- Best Start Site Expansions;
- 2006 National Child Benefit Reinvestment Plan;
- Legal Petition to Reduce U.S. Air Pollution;
- Motion for a Smoke-Free Canada;
- Provincial funding of early childhood development initiatives and the Healthy Babies Healthy Children Program;
- New Lift Equipment for Fairview Lodge Long-term Care facility; and,
- Allocation of Provincial Homelessness Funding.

The following represents select matters brought before Regional Council during 2006 after consideration by Joint Committees or Committee of the Whole.

Joint Committee 2006 Highlights

- Regional Roads Servicing and Financing Study;
- Durham Region Asset Management Initiative;
- Canada/Ontario Municipal Rural Infrastructure Fund;
- 2006 Review of Regional Housing Programs and Related Financial Analysis for the 2006 Business Plan and Four Year Forecast;
- Canada/Ontario Affordable Housing Program;
- Rent-Geared-to-Income Review of Social Housing Providers Transferred to the Region of Durham;
- Solid Waste Management Servicing and Financing Study and Proposed 2006 Business Plans, Budgets and Related Financing;
- Central Pickering Development Plan;
- Transit Servicing and Financing Study;
- Durham Regional Local Housing Corporation Redevelopment Plan for Twelve new One-bedroom Units in Oshawa and Five new One-bedroom Units in Uxbridge; and,
- Allocation of "Move Ontario" One-time Provincial Grant Funding for Regional Roads and Bridges.

Committee of the Whole 2006 Highlights

- Regional Municipality of Durham's Accessibility Plan;
- Regional Response to the Ontario Government's Bill 43, The Clean Water Act, 2005;
- Durham Community Strategic Plan Annual Status Report; and,
- Reduced Fare Transit Passes for Ontario Disability Support Program Recipients Pilot Program.

Durham Region Transit Commission

With the transfer of transit services responsibility from the local area municipalities to the Region of Durham, a Durham Region Transit (DRT) Commission was established in 2006, consisting of all members of Regional Council. The DRT Commission dealt with DRT matters, including in 2006:

- Inaugural 2006 DRT Budget;
- The Universal Pass (U-Pass) Program;
- Expansion of Transit Service;
- Consolidation of all bargaining units;
- DRT capital planning and operations;
- GTA Fare Card system;
- Fare rates and charter service rates; and,
- Joint bus procurement with MTO.

Durham Region and Local Area Municipalities

Our system of local government consists of two tiers. The Regional Municipality of Durham is the first level, the upper tier, and the eight local area municipalities constitute the second level or lower tier. The two-tiered system is designed to retain closeness to the people, while permitting a Region-wide approach to development and infrastructure.

The Regional Municipality of Durham was created on January 1, 1974, as a Regional Government in the Province of Ontario, under The Regional Municipality of Durham Act, 1973. The Act provided for the formation of the eight local area municipalities (The Cities of Oshawa and Pickering, the Towns of Ajax, and Whitby, the Municipality of Clarington, and the Townships of Brock, Scugog and Uxbridge). The current system was created with the annexation and amalgamation of twenty-one former local area municipalities.

As issues continue to increase in complexity, and blend in terms of jurisdictional responsibility, and as resources remain limited, municipalities are increasing their efforts to work together, and with others, to provide required services.

The Regional Corporation has responsibility for the following service areas:

- Police Services and 911 management
- Delegated authority for local area municipal Official Plans and Amendments
- Water supply, treatment, distribution and billing
- Sewage collection and treatment, and billing
- Main arterial roads, traffic lights and controls, and storm sewers on Regional roads
- Borrowing of money for capital expenditures of upper and lower tier municipalities
- Economic Development and Tourism
- Public Health
- Emergency Medical Services
- Social Services, including Child Care, Long-Term Care and Services for Seniors, Family Counselling, Social Housing and Ontario Works Programs
- Provincial Offences Court, Prosecution services, and the administration and collection of fines
- Solid Waste Management, diversion, recycling, promotion and education, waste collection (in six local area municipalities), processing and disposal
- Strategic land use planning and subdivision/condominium approvals
- Property Taxation policy
- Transit Services
- Emergency Measures

Local area municipal councils have responsibility for the following service areas:

- Local planning
- Local roads, storm sewers and sidewalks on local roads
- Fire protection
- Parks and recreation
- Property Tax billing and collection
- Building inspection and permits
- Licencing
- Garbage and yard waste collection (in two local area municipalities).

Durham's Community Strategic Plan

Growing Together

The Community Strategic Plan (CSP) is designed to incorporate a broad community vision into specific objectives, strategic actions and desired results. The Plan is an umbrella document and other plans, policies and strategies support the CSP, as well as take direction from it.

Our theme for Durham's CSP is "Growing Together." This theme conveys two meanings: the anticipated growth of Durham's communities, and our commitment to partnership – working together with our citizens, community organizations, businesses and other levels of government to achieve our community vision.

Community Vision

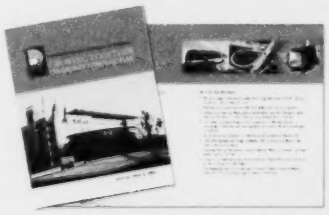
Durham will be a united group of diverse communities recognized for their leadership, community spirit and exceptional quality of life.

Corporate Mission

To meet the needs of our citizens through leadership, cooperation and service excellence.

Corporate Values and Operating Principles

- Leadership;
- Respect, Professionalism, Trust and Integrity;
- Teamwork, Cooperation and Partnerships;
- Accountability;
- Sound Fiscal Management;
- Responsive to Changing Needs;
- Public Awareness and Accessibility;
- Quality; and,
- Continuous Learning and Improvement.



Strategic Community Objectives

Transportation Objective: To strengthen and integrate the transportation system so that people can move easily around the Region and access other parts of the Greater Toronto Area and beyond.

Environment Objective: To protect and enhance the environment to ensure that there is excellent water, clean air, and enhanced and valued green spaces, environmental features and waterfronts.

Balanced Growth and Livable Communities Objective: To ensure balanced growth and livable communities which are proud of their heritage, have thriving downtowns, appropriate services and a sustained urban-rural mix.

Safe Healthy and Caring Communities Objective: To support safe, healthy and caring communities in which people enjoy an exceptional quality of life, feel safe, and are supported by accessible and sustainable community facilities and services.

Economy Objective: To build the Region's economy and support the development of a highly diversified economic base and employment opportunities for those with advanced skills.

Partnerships and Government Effectiveness Objective: To increase partnerships and government effectiveness so that citizens receive services and communities sustain their unique identities while working cooperatively together.

Durham's citizens expect accessible, accountable and responsive government. The annual update report on the status of the actions identified in the CSP went before Regional Council in July 2006. The brochure, *"Growing Together Community Strategic Plan: Annual Update July 2006 Highlights"* is available on the Regional website www.region.durham.on.ca or by calling the Regional Headquarters at 905-668-7711 or 1-800-372-1102.

Our Communities:

United, Vibrant and Diverse

Town of Ajax

Population: 92,090
www.townofajax.com
Area: 68 sq. km. (26 sq. mi.)

The Town of Ajax is a thriving community embracing an active, modern lifestyle, while preserving a rich history. The town was named after a famous Second World War fighting ship, and the original ship's bell still rings to call Municipal Council meetings to order. Ajax is one of the fastest growing communities in Ontario and, as the first municipality in Ontario to achieve an ISO 9001 designation, municipal staff can respond effectively to the needs of residents and members of the vibrant business community.

The town's retail sector includes a Regional shopping centre at Harwood Avenue North and Highway 2 and many unique shopping experiences such as Pickering Village. As a rapidly growing community, Ajax includes a mix of established and new neighbourhoods. Residents enjoy a rich natural heritage, including waterways such as the Duffins and Carruthers Creeks, an extensive trail system, and the permanently preserved Lake Ontario shoreline, featuring six kilometres of parkland and natural areas.

The town strives to be a leader in environmental initiatives and has constructed a new Fire Hall Headquarters and training facility as a LEED certified building – the first in Durham Region.

A new Highway 401 interchange at Salem Road now provides direct access to the 1,000 acre Carruthers Creek Employment Properties. As a direct result of the new interchange, the town has attracted over $100 million in new business investment and close to 1,000 new jobs.

Township of Brock

Population: 12,860
www.townshipofbrock.ca
Area: 426 sq. km. (164 sq. mi.)

Deemed Ontario's small-mouth bass capital, the Township of Brock provides a pastoral getaway and quaint countryside delights with century-old architecture for visitors to enjoy. Located on the scenic shoreline of Lake Simcoe and the Trent-Severn Waterway, this family-friendly community abounds with all-season fishing and recreational opportunities. It encompasses the communities of Beaverton, Cannington and Sunderland. It's also home to some of the Region's most interesting heritage buildings, fall fairs and festivals, and antique and craft shopping. Brock's maple syrup production is also celebrated each spring when Sunderland hosts its maple syrup festival. Quaint shopping districts in Brock's villages, and the friendliness and warmth for which the area is known, will demonstrate why Brock is referred to as the 'Community with a Heart.'

Brock's key industries are aggregates, glass production, rope and lace manufacturing, metal fabrication, jewelry and badge mounts, and acoustical components. There are industrial parcels available within the township for development.

Culture, heritage, family attractions, romantic getaways...
It all awaits you here in Durham Region, where you'll discover there is something for everyone.
Whether your choice is a day trip, weekend getaway or family vacation – Durham Region has exactly what you are looking for.
Explore our 'good natured, good times,' and create special memories with family and friends in Durham.

Municipality of Clarington

Population: 82,470
www.clarington.net
Area: 613 sq. km. (237 sq. mi.)

As the eastern gateway to the Greater Toronto Area, the Municipality of Clarington is proud to be home to more than 1,200 commercial enterprises of remarkably diverse sizes and types. The Clarington Board of Trade, formed in June 1998, works in partnership with the municipality to ensure continued economic prosperity. Attractive industrial land costs and a quality lifestyle make it easy to recruit skilled employees and expand the economic base. One of the Region's largest employers, Ontario Power Generation's Darlington Nuclear Generating Station, is located in Clarington, and produces enough electricity to serve a city of two million. Darlington Nuclear Generating Station also has a large wildlife area on its property, including wetlands and forests.

The municipality has a breathtaking shoreline, a 17-kilometre stretch of the Waterfront Trail, and is very proud of its farming communities, hamlets and major population centres, including Courtice, Bowmanville, Newcastle Village and Orono Village. Historic downtown shopping districts, along with modern retail blocks, flea markets, a local farmers' market and auctions co-exist with the beautiful countryside.

Go wild or tranquil in Clarington. A community where town and country come together!

For more information on tourism, please contact Durham Region Tourism at 1-800-413-0017 or visit www.durhamtourism.ca

City of Oshawa

Population: 151,040
www.oshawa.ca
Area: 147 sq. km. (57 sq. mi.)

The City of Oshawa has a rich industrial history and is known for its innovative and leading-edge educational and research facilities. Oshawa is home to Canada's newest university, UOIT, which is anticipated to exceed 6,500 students by 2010. UOIT has created strategic industry partnerships that benefit the local and Canadian economy and attract research investment to the Region.

The city is well-known as Canada's automobile industry hub and houses the award-winning General Motors of Canada's Autoplex, Canadian Regional Engineering Centre and Canadian Headquarters. The Stevenson Road Highway 401 interchange will also enhance commercial and industrial growth, as will the eventual extension of Highway 407.

The City of Oshawa's downtown has been identified as a priority urban centre under the Province's Places to Grow Growth Plan, and the Downtown Action Plan is well underway. The state-of-the-art General Motors Centre opened in Oshawa's downtown in November 2006, and the 446,000-square-foot Durham Consolidated Courthouse will open in 2009.

City Council has invested in the renovation and construction of new recreational facilities across the community, including the new South Oshawa Community Centre and award-winning Legends Centre.

Oshawa has long enjoyed a reputation as a beautiful city. Oshawa has won four Communities in Bloom competitions, and it is home to the Second Marsh Wildlife Area. The city has an extensive network of paved trails and parks. The Robert McLaughlin Gallery, Parkwood National Historic Site, museums, live theatre, symphony concerts, and a variety of annual events add to the city's cultural kaleidoscope.

Our Communities:

United, Vibrant and Diverse

City of Pickering

Population: 91,800
www.cityofpickering.com
Area: 232 sq. km. (90 sq. mi.)

The City of Pickering is Toronto's eastern neighbour, offering quality of life, business prosperity and attractive, affordable housing. Highway 401 and the new Highway 407 provide efficient and effective transportation options for both residents and business. The Central Pickering Development Plan provides direction for the establishment of the future 'Seaton Community,' a proposed sustainable community supporting up to 70,000 new residents and 35,000 additional jobs. Meanwhile, the Greater Toronto Airports Authority is planning for a proposed reliever airport on federally owned lands within Pickering.

Already recognized as a major energy centre, Pickering is home to Ontario Power Generation's operations, including 450 nuclear engineers and other staff at a 115,000-square-foot facility at Brock and Clements Roads. Veridian Centre in the city's downtown core, includes Veridian's consolidated billing and call centre.

Pickering's appeal is as diverse for residents and tourists as it is for business, including recreational opportunities from the Seaton Hiking Trail, the Waterfront Trail and Frenchman's Bay, and the pastoral rolling hills that grace the north. Celebrations, festivals and shopping opportunities abound in Pickering with specialty shops, markets and modern malls.

Township of Scugog

Population: 22,715
www.township.scugog.on.ca
Area: 478 sq. km. (185 sq. mi.)

The Township of Scugog is one of the Region's popular tourist destinations. Port Perry, its major urban centre, tempts visitors with a charming, historic downtown and specialty shopping district. Several hamlets and villages make for breathtaking sightseeing. Summers sizzle with various festival days, agricultural fall fairs and farmers' markets.

The township provides fabulous venues for rowing, boating, fishing and snowmobiling. You can gamble on some serious fun at the Great Blue Heron Charitable Casino on the First Nations Mississauga Indian reserve on Scugog Island. For a taste of culture, Port Perry's historic former Town Hall is the site for music and theatre. The Kent Farndale Gallery holds art shows year-round and the Scugog Shores Museum hosts festivals and seasonal events.

The Nonquon Wildlife Area offers hiking, canoeing, and one of the best birding habitats in the Greater Toronto Area. Each summer Scugog hosts the traditional "Canoe the Nonquon" competition.

Scugog's primary industries are manufacturing, roof trusses, automotive racks, world-renowned motorcycle exhausts and state-of-the-art audio systems. North Port Industrial Park, Reach Industrial Park and Success Industrial Park have zoned acreage ready for development.

Sample of Attractions

- *Archibald Orchards and Estate Winery*
- *Bowmanville Zoological Park*
- *Pickering Markets and Trade Centre*
- *Scugog Island Cruises*
- *Slots at Ajax Downs*
- *Sunderland Maple Syrup Festival*
- *The Robert McLaughlin Gallery*
- *Mosport International Raceway*
- *Jungle Cat World*
- *Ocala Orchards Farm Winery*
- *Great Blue Heron Charity Casino*
- *Parkwood: The R.S. McLaughlin Estate*
- *Oshawa Generals O.H.L. Hockey*
- *York-Durham Heritage Railway*

Township of Uxbridge

Population: 20,765
www.town.uxbridge.on.ca
Area: 424 sq. km. (164 sq. mi.)

History and the arts attract people to Uxbridge, as does its quaint shopping district. Architecturally and historically significant homes, churches and buildings, are a draw for both residents and visitors, including the Byzantine style Thomas Foster Memorial, and Leaskdale Manse, the former homestead of Lucy Maud Montgomery. The Uxbridge-Scott Heritage Centre displays historic artifacts in eight beautifully preserved buildings. In 1996, Uxbridge celebrated the grand opening of the York-Durham Heritage Railway, including a fully restored rail station where travellers can board the nostalgic train, and enjoy the scenic ride between Uxbridge and Stouffville. The township is a haven for patrons of the arts and many award-winning artists, authors, musicians, actors and sculptors.

Celebrate Celtic traditions at the annual Highlands of Durham Games each summer. Enjoy skiing at local hills, and some of the Region's elite golf courses while in Uxbridge.

Uxbridge's economic sectors include: aggregates and concrete products, nursery stock, metal recycling, food processing, auto-parts manufacturing, automation testing equipment, woodworking and printing. The Uxbridge Industrial Park, Parrott Road Industrial Park, and other industrial parcels are potential development lands. New development offers excellent commercial opportunities.

Town of Whitby

Population: 116,110
www.town.whitby.on.ca
Area: 147 sq. km. (57 sq. mi.)

Revitalization, downtown improvements and new business investment make downtown Whitby an important business district. The Town has spent $30 million expanding cultural facilities over the past five years. The result has been magnificent facilities for residents, including the Central Library and the Station Gallery.

The private sector also contributes to a downtown that is the cultural heart of Whitby. There are 33 full-service restaurants and pubs, supporting entertainment and cultural venues, and 14 private culture providers, including theatres, dance studios, commercial art galleries, music schools and the Whitby Historical Museum.

Recent surges in population have been accompanied by an increase in retail and entertainment development projects, including the Whitby Entertainment Centrum and the Thickson Road/Highway 401 Power Centre. The Iroquois Park Sports Centre is Canada's largest municipal-owned recreation facility, hosting major tournaments and special events.

Whitby's six-kilometre stretch of the Waterfront Trail forms a picturesque shoreline for recreation and conservation. With theatres, galleries, sports, festivals and extensive shopping choices, it is difficult to choose from the rich kaleidoscope of activities.

Whitby also hosts a strong and diversified industrial sector that includes plastics, packaging, pharmaceuticals, steel, telecommunications, technology and automotive. Industry benefits from affordable and available serviced industrial land and a relatively young and skilled labour force.

Durham Region: Committed to

Performance Measurement

A Commitment to Performance Measurement

The Province of Ontario introduced the Municipal Performance Measurement Program (MPMP) in 2000 to enhance accountability in the municipal sector. This program requires mandatory reporting by all Ontario municipalities. Other objectives of performance measurement are to improve service delivery, share best practices within and amongst municipalities, and to increase taxpayer awareness. These objectives are shared by the Region of Durham and are reflected in its long-standing commitment to service excellence and financial strength. The Region has established practices of developing and reporting performance measures as part of the annual budget process. The Region's commitment to financial excellence has been rewarded by the achievement of the highest credit ratings.

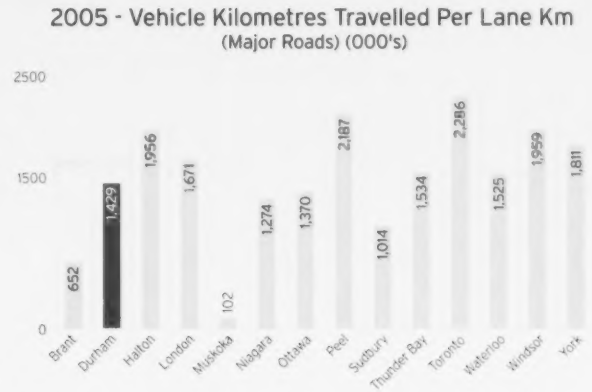
The 2005 MPMP results (the latest available), including detailed narratives, are available on the Region's website or by contacting the Region. The MPMP data is collected at a high level. As a result, the reasons for a particular trend in results needs to be considered carefully prior to reaching decisions on changes to the service area. The MPMP measures permit internal comparison year over year, and are not intended for direct comparisons across different municipalities.

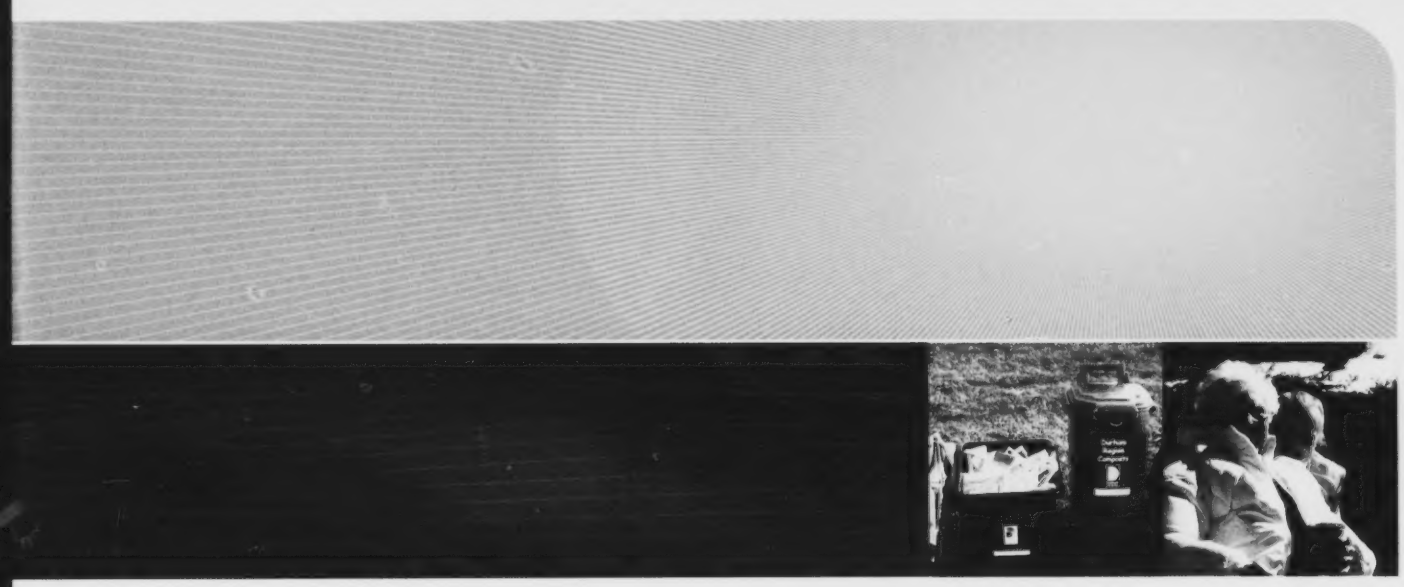
Ontario Municipal CAO's Benchmarking Initiative

The Ontario Municipal CAO's Benchmarking Initiative (OMBI) is a collaboration between 15 Ontario municipalities that represent 9.1 million citizens or 72% of the population of Ontario. The initiative is led by the Chief Administrative Officers (CAOs) and City Managers in each participating municipality and fosters a culture of service excellence in municipal government. It does this by creating new ways to measure, share and compare performance statistics and allows service experts in the participating municipalities to share ideas on operational best practices.

January 2007 marked the release of the inaugural "2005 Performance Benchmarking Report: Partnering in Service Excellence" prepared by the Ontario Municipal CAO's Benchmarking Initiative (OMBI). The goal of the CAOs' report is to provide information necessary to measure and compare how efficiently and effectively member municipalities deliver programs and services to residents. The report highlights 12 service areas, focusing on services that are in common, while recognizing that there are characteristics that make each municipality distinct. Durham is identified in 8 of the service areas presented in the report, with the balance of the services provided by local area municipalities. Some examples of 2005 comparative performance measurement results contained in the report are as follows:

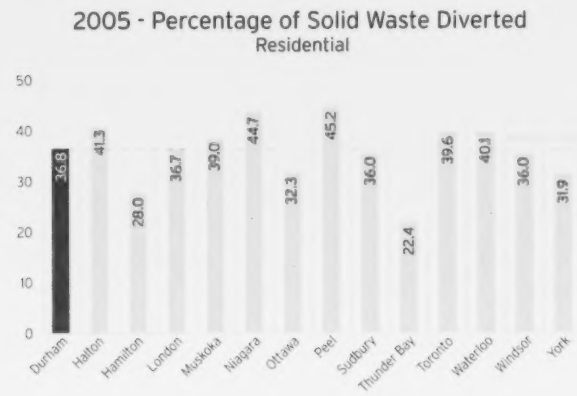
Public Works - Roads





This graph compares the level of congestion on main roads in each municipality. It shows the number of times (in thousands) a vehicle travels over each lane kilometre of road. The lower the bar, the less congested the roads. The number of vehicles on the roads can be affected by population density, the type of road the municipality operates (e.g. arterial, collector or local roads, and in some cases, expressways) and average commute distances (e.g. from home to work or school).

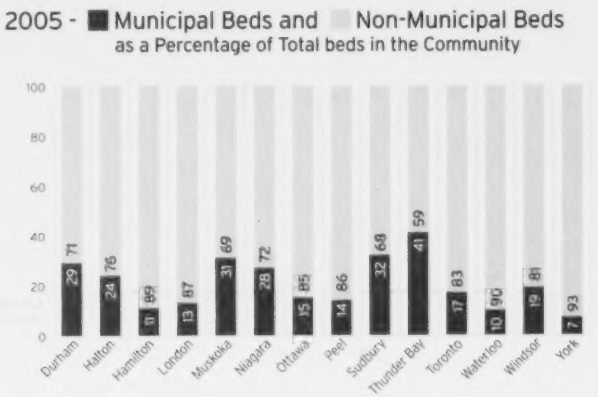
Solid Waste



This graph illustrates what percentage of residential garbage was diverted away from landfill sites in 2005. The higher the bar, the more garbage was recycled and diverted from landfill. A number of factors affect how much garbage can be diverted away from landfill sites:

- How a municipality manages and enforces its recycling program;
- The rate of public participation in recycling activities;
- The number of material types included in diversion programs; (e.g. organics)
- Seasonal residents or tourists and their participation in diversion programs;
- The number of daily newspapers published in a municipality, and
- The mix of single family homes, and multi-unit residential buildings where recycling is more difficult.

Long Term Care



This graph provides a percentage breakdown of the portion of long term care beds in the community that are provided by the municipality (municipal beds) and the portion provided by other service providers (non-municipal beds). The higher the municipal bed portion of the bars, the higher the municipal share of all long term beds in the community. Each municipality is faced with a different level of demand due to a number of factors, including:

- The age of the population in its area;
- The availability of alternate community programs and services, and
- The proximity of family and friends.

Report From the

Commissioner of Finance and Treasurer

R.J. Clapp, CA
Commissioner of Finance and Treasurer

It is with pleasure that I present the Annual Financial Report of the Regional Municipality of Durham, Ontario, Canada. This report provides financial results for the year ended December 31, 2006.

Increased economic and population growth has led to significant increases in the demand for Regional services in Durham Region. This pressure is anticipated to continue over the next five years as Durham Region's Census Metropolitan Areas (CMAs) continue to lead population growth rates in Ontario.

Economic strength is being fuelled by the Region's strong population growth, competitive location, advantages with respect to a highly developed energy, communications, transportation and social infrastructure, and the Region's young and highly skilled labour force. According to Statistics Canada, the Oshawa CMA, which includes the Town of Whitby, City of Oshawa and the Municipality of Clarington, has the second highest median household income in the country at a significant $76,800.

Although the local manufacturing sector is not isolated from Ontario's challenges faced due to a strengthened Canadian dollar and competition from low cost overseas markets, a GDP growth rate of between three and four percent is still anticipated within the Region of Durham through 2010. Population growth in Durham has been consistent at approximately two percent per year, with expansions in the services sector averaging 4.5 percent growth per year over the last 18 years, according to the Conference Board of Canada.

Durham has a competitive advantage when it comes to housing affordability within the Greater Toronto Area, and this factor is anticipated to continue to strengthen demands for housing, commercial and professional services. The continued expansion of the new University of Ontario Institute of Technology (UOIT) is also a plus from an economic development perspective, and is anticipated to exceed 6,500 students by 2010, compared to over 4,300 students in 2006/07. UOIT is anticipated to generate an estimated

$1.09 billion in personal income between 2005 and 2011 through capital projects, employment and other operating expenditures, with most being spent locally on housing, taxes, goods and services.

Despite being down slightly compared to 2005, the total value of building permits issued in Durham Region in 2006 was still the third highest in the Region's history at $1.5 billion. Positive growth in non-residential building permits was also reflected in non-residential floor space increases that totaled 403,083 metres squared (4.3 million square feet), representing an increase in non-residential floor space of over 15%.

According to the Canada Mortgage and Housing Corporation, in 2006, there were 5,363 housing starts, down slightly from the 5,488 housing starts recorded for 2005. The trend of exceeding 5,000 housing starts each year commenced in 2002. According to the Canada Mortgage and Housing Corporation, housing starts in Durham Region averaged just 3,619 starts between 1996 and 2001.

Several major infrastructure projects and increased private investments have had a significant positive impact on the economy of Durham Region and will assist in creating positive long-term growth. These include, but are definitely not limited to, the new Highway 401 Interchanges, including one at Salem Road in the Town of Ajax, and one currently under construction at Stevenson Road in the City of Oshawa. The Regional economy will also get a boost from additional planned projects, including the new Courtice Water Pollution Control Plant in the Municipality of Clarington, and the $3 billion investment in the Beacon project by General Motors of Canada and its partners. Longer term, there will be further expansion of the Highway 407 through to the Municipality of Clarington, as well as a new Highway 401 Interchange planned for Lakeridge Road in the Town of Whitby.

Our unemployment rate, at 6.5% in 2006, was slightly above the Provincial and Federal average (both 6.3% for 2006). The local rate (Oshawa CMA) reflects a significant increase in the total size of the local labour force due to population growth. The Conference Board predicts job growth in the Oshawa CMA will remain fairly brisk, averaging a healthy 2.7% annually over 2006 and 2007.

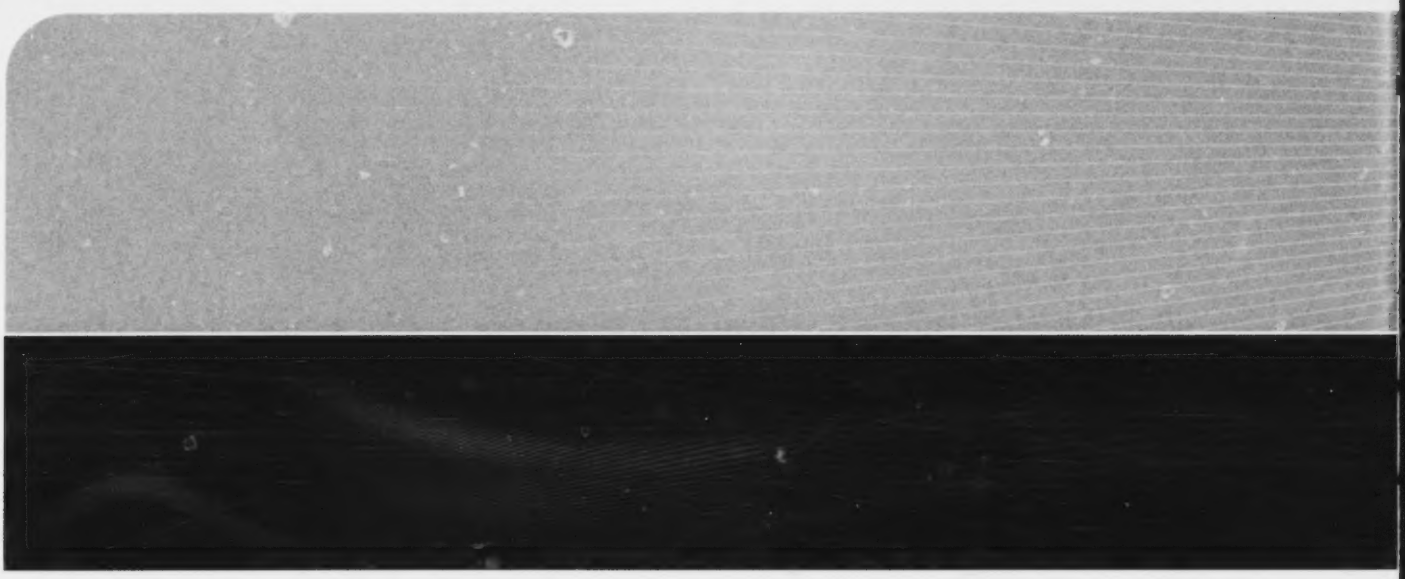
The economic growth being experienced in Durham adds significantly to the financial pressures being faced by the Region, which must respond to increased demands for Regional services, and higher costs for Regional infrastructure, including Regional roads, water supply and sanitary sewerage, long-term care facilities, police infrastructure and new emergency medical services capital, such as ambulance stations, vehicles and equipment. The Region throughout 2006 also implemented the transfer of transit service operations to the Regional level.

In dealing with these inevitable cost pressures, the Regional Municipality of Durham relies on its long record of sound financial planning, based upon prudent assumptions. A long-time commitment to up-front financing and maintenance of strong reserves and reserve funds and a low burden of debt enhances the Region's flexibility, and its ability to meet financial obligations and pressures. In addition, the Region's Asset Management program provides comprehensive information regarding the inventory, condition, replacement value, and long-term capital requirements of the Region's roads, water and sewer infrastructure and ensures that rehabilitation requirements for roads, water and sewer infrastructure are adequately funded.

Financial Management and Control

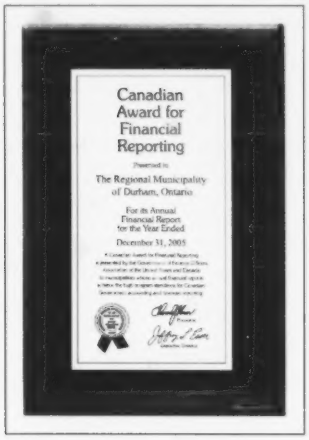
The Region of Durham maintains internal administrative and accounting controls to ensure that financial information is reliable and relevant and that the Region's assets are safeguarded.

The Region's Purchasing By-law and Budget Management Policy, in conjunction with other Regional Policies and Provincial legislation, govern the fiscal responsibilities of the Regional administration. Regional By-laws prescribe purchasing, accounting, investment, risk management and debt



The Government Finance Officers Association of the United States and Canada (GFOA) awarded a third consecutive Canadian Award for Financial Reporting to the Regional Municipality of Durham for its annual financial report for the fiscal year ended December 31, 2005. The Canadian Award for Financial Reporting program was established to encourage municipal governments to publish high quality financial reports and to provide peer recognition and technical guidance for officials preparing these reports.

In order to be awarded a Canadian Award for Financial Reporting, a government unit must publish an easily readable and efficiently organized annual financial report, whose contents conform to program standards. Such reports should go beyond the minimum requirements of generally accepted accounting principles and demonstrate an effort to clearly communicate the municipal government's financial picture, enhance an understanding of financial reporting by municipal governments, and address user needs.



policies and procedures that ensure effective and clear guidelines for expenditures and the requisition of goods and services.

The Budget Management Policy for example, addresses the balance between Regional expenditures and the availability of funding. Budget Management and Purchasing policies provide an accountability framework that establish the extent of authority for spending decisions, both planned and unplanned, and outline the discretion permitted in those spending decisions, delegated by Regional Council.

The Region of Durham's commitments, to long-term financial planning and sound fiscal policies, provide a solid foundation for financial management and promote a healthy capital financing structure. Our "pay-as-you-go" financing philosophy, low levels of debt issuance, strong reserve and reserve fund strategies, and "growth-pays-for-growth" development charges policy contribute to the Region's fiscal strength.

Both Standard & Poor's and Moody's Investors Service reaffirmed the Region's financial strengths, upholding Durham's long-standing "Triple A" credit rating. This highest rating category places Durham in a select group of municipalities with an exemplary reputation in the investment community and who are seen as leaders in fiscal responsibility and integrity. Based upon the firms' review of the Region, Durham's major credit strengths supporting a Triple A rating were identified as:

- Strong financial performance supported by utilization of multi-year economic and financial forecasting to guide the development of annual operating and capital budgets;
- Rigorous management practices that have succeeded in maintaining a low debt burden and high levels of reserves;
- Conservative forecasts covering various risk scenarios and facilitating the management of cost pressures and far-sighted decision making; and,
- Continued economic expansion and assessment growth.

Durham Region
Business Planning Cycle

The Regional Business Planning Cycle: Long-term Financial Planning

Each year Regional Council has established pre-budget guidelines for annual operating and capital expenditures and financing based upon a multi-year budget forecast provided by Regional staff. The annual "Five-year Economic and Financial Forecast and Budget Guidelines" report provides Regional Council each year with preliminary estimates of financial requirements facing the Region over a five-year horizon, as well as potential sources of financing. The Region currently completes separate annual Servicing and Financing Studies, including multi-year capital expenditure forecasts in the areas of Regional Roads, Water Supply and Sanitary Sewerage, Solid Waste Management and Social Housing. With the Durham Region Transit Commission commencing operations January 1, 2006, an annual Servicing and Financing Study for Regional Transit operations has also been instituted as part of the corporate business planning and budget process.

The Region's Business Planning and Budget Cycle commences with the prioritization of strategic actions established under the Community Strategic Plan (CSP). With a focus upon desired results, all Regional Business Plans and Budgets balance CSP strategic actions with available financing on an annual basis. The CSP now initiates and is implemented through the Region's Business Planning Cycle. Intertwined with multi-year forecasts, detailed business plans (including budgets), performance measures and the reprioritization of programs and service levels, CSP objectives and priorities can be prudently implemented within a sound fiscal framework, while focusing on realistic and timely program and infrastructure priorities. The Business Planning Cycle, incorporating the CSP, is an enhancement to the Region's commitment to transparency and accountability.

Financial Accountability

The Region fully supports the goal of financial accountability to taxpayers, an objective at the heart of all Regional corporate strategies and the Community Strategic Plan. Durham is in compliance with all guidelines that are established by the Municipal Performance Measurement Program (MPMP), a Province-wide program that requires municipalities to report on measures that reflect the efficiency and effectiveness of public services. Durham Region endorses these guidelines and is also an active member in the Ontario Municipal Benchmarking Initiative, a voluntary project to identify and share best practices of service efficiency and quality in Ontario Municipalities. For information on the MPMP program, I would encourage readers to visit the Regional website at www.region.durham.on.ca or call the Region at 905-668-7711 or 1-800-372-1102.

Financial Statements

The consolidated financial statements presented herein have been prepared in accordance with accounting policies that conform to local government accounting standards established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. Where the determination of assets and liabilities is dependent upon future events, amounts are based upon reasonably determined estimates and judgements.

The Region is required by the Municipal Act to engage independent auditors to express an opinion as to whether our consolidated financial statements present the Region's financial position and operating results and changes in financial position fairly in all material respects. Deloitte & Touche LLP has fulfilled this audit function as evidenced by the auditors' reports included in this document.

R.J. Clapp, CA
Commissioner of Finance and Treasurer, June 30, 2007

Durham Region

Economic Climate

Economic Climate

For Canadian indicators as a whole, the year 2006 unfolded roughly in line with expectations, with few surprises. The Canadian economy had a very strong decade overall, and has weathered many challenges including elevated prices, a strong Canadian dollar, heightened foreign competition, and U.S. economic slowdowns.

During the second half of 2006, North American economies entered a slower mode. The U.S. economic expansion, always an important factor for Canada's economy, slowed, due in part to a housing market correction, albeit one that is anticipated to stabilize in the latter half of 2007 or 2008. Despite signs of stabilization, weaker home prices in the U.S. have the effect of lowering consumer confidence and purchasing power overall, which creates ripple effects for Southern Ontario's export based economy.

The Canadian economy geared down to a real Gross Domestic Product (GDP) growth rate of approximately 2.0% in 2006, compared to 2.9% in 2005, and 3.3% in 2004. The Bank of Canada revised Canadian growth forecasts downwards by October 2006, based upon weakness in the U.S. economy, and also lowered expectations for labour productivity. The Bank reduced its growth forecast for 2007 to 2.5% from 2.9%. In Ontario, more modest growth is anticipated. By the fourth quarter of 2006, the Ontario Minister of Finance was projecting a growth rate of 2.0% for Ontario in 2007 (3.0% in 2008).

While intense global competition, a rising valuation on the Canadian dollar, and a slower paced U.S. consumer sector, reduced prospects for Ontario's manufacturing base, Ontario's manufacturing sector continues to make very significant investments in capital equipment, taking advantage of the higher Canadian dollar. Accelerated cuts to the Province's capital tax should increase capital investments further, with private machinery and equipment outlays already growing at a double-digit clip through much of 2006. The enhanced investment climate aims to deliver secure new jobs and deliver productivity improvements once things get moving again. The investments demonstrate in part that while times are currently tough in the sector, there are solid companies in the Province that plan to compete longer-term in the new global economy.

Although 2007 will see a cyclical slowdown in auto exports to the United States, locally, the Region of Durham has seen significant reinvestment. In particular, General Motors of Canada's "Beacon Project," represents over a $3 billion reinvestment in GM's Canadian operations, representing the largest automotive investment in Canadian history. Included in this investment was a $582 million investment in the City of Oshawa paint shop for two car operations, the introduction of flexible manufacturing systems at the car plant in the City of Oshawa, the expansion of Canadian engineering and design, and the establishment of a Canadian Automotive Centre of Excellence to be based at the new University of Ontario Institute of Technology.

GM also proceeded with a new $227 million investment in its Oshawa truck assembly centre to prepare for the next generation of full-size pickup trucks, the Chevrolet Silverado and GMC Sierra. The retooling was completed in the fall of 2006. In 2006, General Motors also announced that the Oshawa Autoplex was chosen as the plant to produce the newly revamped Chevrolet Camaro, an investment for Durham of $740 million (the most recent announcement under the Beacon Project) to restructure the two car plants into one state-of-the-art flexible manufacturing plant. The flex facility will be capable of producing a variety of both front and rear wheel drive vehicles and the flexibility of

the plant will allow Oshawa to vie for more products. The investment is potentially good news for parts suppliers as well, given expanded opportunities for new contracts. Pival International, a Montreal-based company, will be building new facilities in Oshawa and will provide logistics support to GM's flexible manufacturing facility when it opens in 2008. The parts suppliers will ship their product to the Pival facilities which will in turn manage the deliveries to GM.

Including consideration of the huge boost from the Beacon project, the Conference Board of Canada has anticipated the Oshawa Census Metropolitan Area to be one of the fastest growing metropolitan economies over the 2007 to 2009 period.

In addition, Ontario Power Generation (OPG) has announced that it wants to expand at the Darlington Nuclear Plant. The formal Federal Government approval process, including an Environmental Assessment, is currently underway. OPG has also begun an Environmental Assessment for a refurbishment of four units at the Pickering Nuclear Plant. Both significant investments are part of the Ontario Power Authority recommendations in December 2005, including $40 billion of new nuclear to maintain the nuclear sector's 50% share of the Province's energy supply mix. The investments will create thousands of jobs in Durham Region over the 10-year construction period, and afterward for supply and operations.

Durham's economy, characterized by high employment levels and significant new capital investment, remains very positive. However, a robust economy also leads to significantly increased growth pressures and corresponding demands for more services and infrastructure expansion. The Regional Corporation is committed to responding to these demands in a fiscally responsible manner with timely infrastructure developments, including, but not limited to: the improvement and development of Regional roads; water supply and sanitary sewerage; police and emergency medical facilities and equipment; and long-term care facilities.

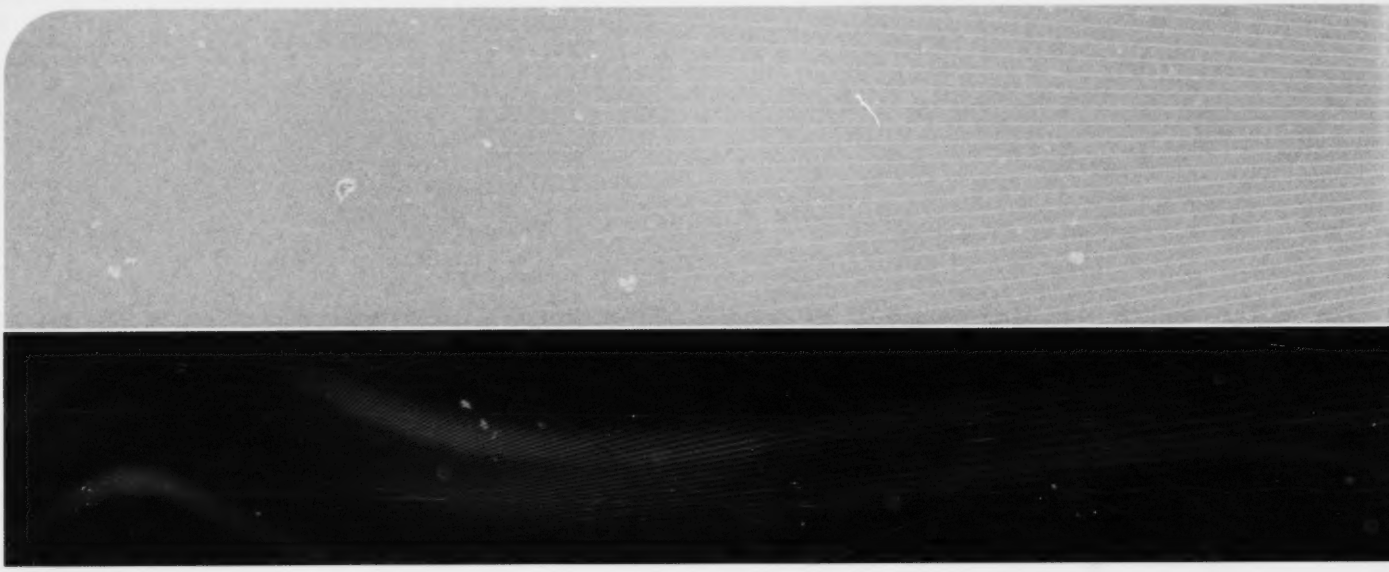
Economic Indicators

Unemployment Rates

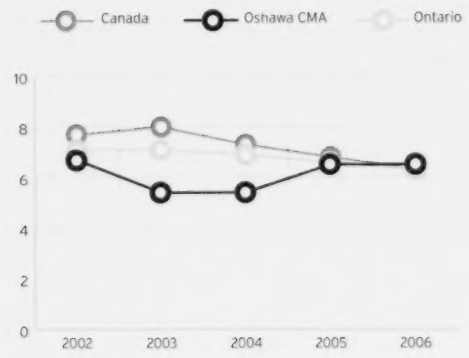
According to Statistics Canada's January 5, 2007 "Labour Force Survey," Canadian employment levels increased by approximately 62,000 jobs in December, pushing the unemployment rate down to a 30-year low. The year 2006 marked the 14th consecutive year of employment increases in Canada. In Ontario, employment increased in 2006 by an estimated 1.8% growth, or 113,000 new jobs.

Most of Ontario's employment gains were in the service sector, including health care and social assistance, trade and other services. Manufacturing declines continued however, and according to Statistics Canada, since the peak in November 2002, manufacturing declines in Ontario have totalled 130,000, or a loss of 11.6%. Although substantial, this represents less than half of the previous decline of the early 1990s recession, when factory employment in Ontario fell by 24.4%, or 260,000 jobs.

The 2006 Canada and Ontario unemployment rate was 6.3%, slightly lower than the rate for the Oshawa Census Metropolitan Area (CMA), which includes the Municipality of Clarington, the City of Oshawa, and the Town of Whitby. The local rate as represented by the Oshawa CMA rate was at 6.5% for 2006.



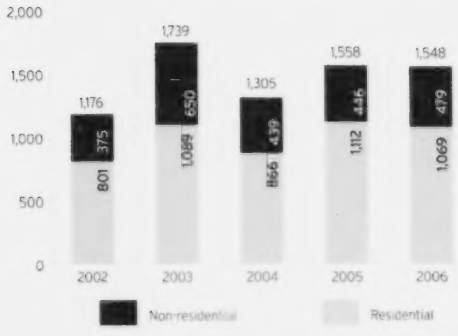
Unemployment Rates 2002 to 2006



Source: Statistics Canada

Durham Region Building Permit Activity 2002 to 2006

($ Millions)



Source: Durham Region Planning Department

Building Permits

At $1.5 billion, the total value of building permits issued in 2006 in the Region of Durham was down by a marginal 0.7%, but still was at the third highest level in the Region's history, next to the $1.6 billion issued in 2005 and $1.7 billion issued in 2003. Since the Region's inception in 1974, the total value of building permits issued annually in Durham has averaged approximately $697.3 million. During 2006, permit values were still more than twice the historical average.

The 2006 decrease in total building permit value was due to a slight decline in residential activity (from $1.11 billion to $1.07 billion). The value of non-residential permits increased from $446.5 million in 2005 to $479.3 million in 2006, an increase of 7.3%. This marked the second highest total for non-residential building permits in the Region's history after 2003 where the total value was $649.8 million. Over the past 30 years, the non-residential building permit value has averaged $220.2 million per year. The increase in non-residential building permit value was primarily attributed to the industrial and institutional sectors. Major non-residential building projects included:

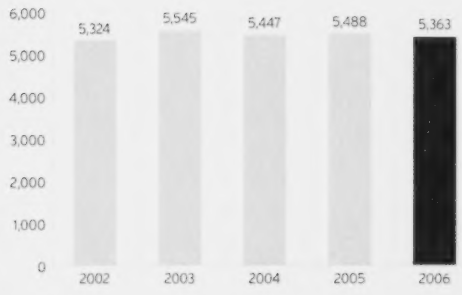
- Loblaws storage building in the Town of Ajax ($39 million)
- Ontario Power Generation warehouse in the Municipality of Clarington ($35 million);
- Phase two of Oakwood Retirement Community in the Town of Whitby ($29.2 million);
- General Motors tire warehouse in the City of Oshawa ($19.2 million);
- Addition to General Motors facilities in the City of Oshawa ($19 million);
- New industrial building for art distribution in the Town of Whitby ($19 million);

- Pumping Station at Harmony Creek Water Pollution Control Plant in the City of Oshawa ($16.1 million);
- Chartwell Retirement Residence in the City of Pickering ($15 million);
- Community Centre in the Municipality of Clarington ($15 million);
- Addition to University of Ontario Institute of Technology and Durham College in the City of Oshawa ($14 million); and,
- New Durham Children's Aid Headquarters in the City of Oshawa ($13.4 million).

Durham's share of the total GTA building permit value (approximately $12 billion) increased from 12.2 percent to 12.9 percent in 2006.

Housing Starts

Durham Region
Housing Starts 2002 to 2006



Source: Canada Mortgage and Housing Corporation (CMHC)

Low interest rates, strong employment levels and a significant in-migration have provided a strong catalyst for housing demand in Durham Region, particularly since 2002. According to the Canada Mortgage and Housing Corporation (CMHC), there were 5,363 starts in the Region of Durham during 2006, down slightly from 5,488 starts in 2005. Housing starts remain over the 5,000 mark and are only slightly below 2003, which was a banner year for housing starts in Durham Region, and the best year since 1989.

Durham Region housing starts remained at a stronger pace than the rest of the Province, with 2006 new home construction figures for the Oshawa Census Metropolitan Area (CMA) outpacing 2005 figures by almost eight percent. The Oshawa CMA, which includes the Town of Whitby, City of Oshawa and the Municipality of Clarington, is a fast growing Region in Ontario. The CMHC notes that "...rising construction costs and land limitations have encouraged homebuilders to shift construction to less expensive home types and areas, where more land is available." New homebuyers are looking to Durham Region, with its competitive pricing advantage compared to other GTA Regions. More affordable home prices are a draw for potential buyers, as is the quality of life available.

Growth and Spending

Significant population growth has resulted in a vigorous housing sector, as well as increasing demands for services from both public and private service providers. Durham's low unemployment rates, and relatively higher personal income levels, also provide support for private sector consumer spending. The median total household income within the Oshawa CMA was estimated at $76,800, compared to $64,500 for Ontario and $60,600 for Canada as a whole (Statistics Canada).

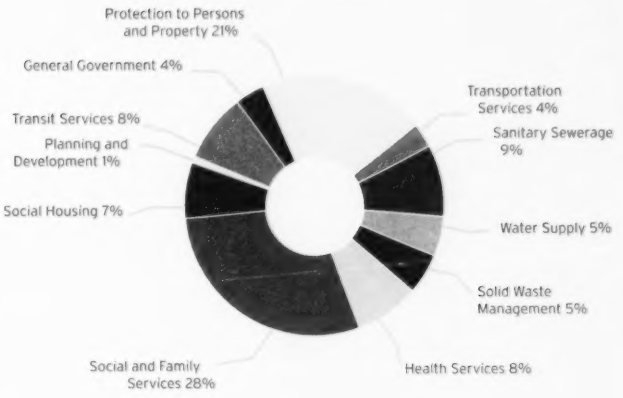
Financial Results

Operating Fund Expenditures

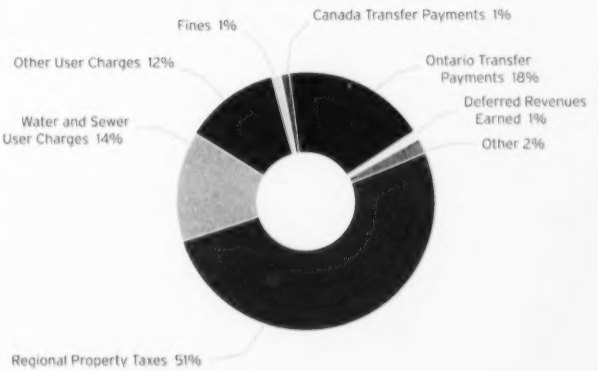
Total operating fund expenditures increased in 2006 by 15 percent from $608.6 million to $701.8 million. Major operating expenditure increases for 2006 included:

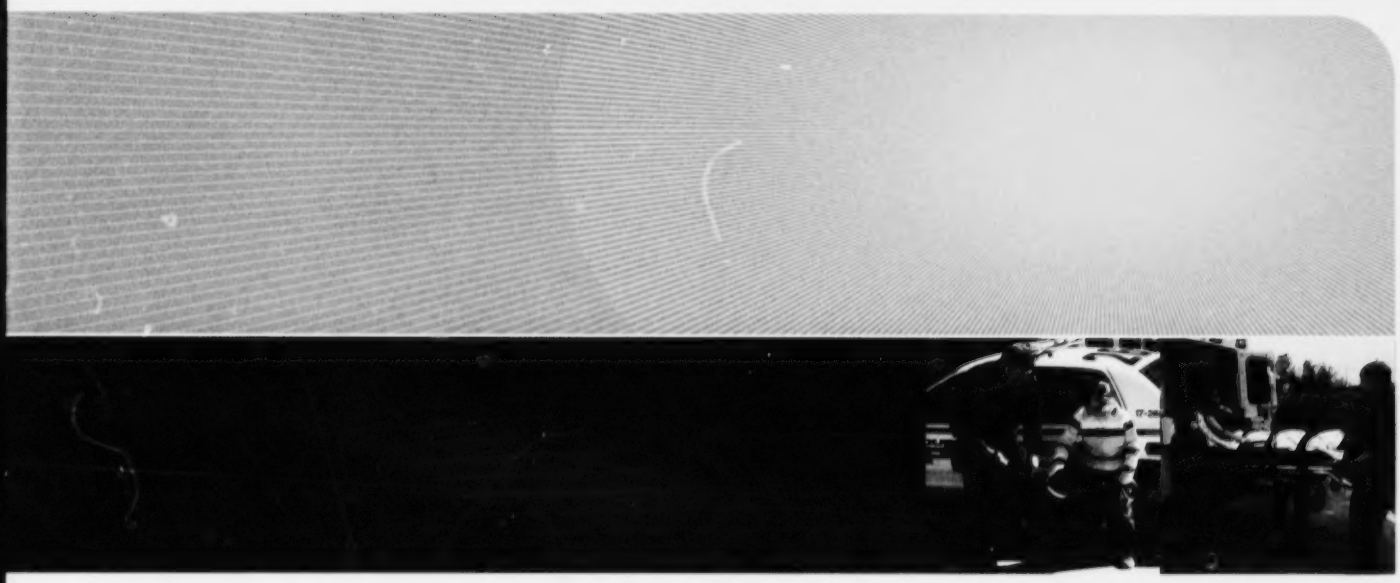
- 30 new police officers and seven police civilian staff;
- Funding for Emergency Medical Services paramedics to meet increased call demands;
- An $8 million increase to fund road improvements;
- Additional nursing and support staff for long-term care facilities, including new and expanded facilities in the City of Oshawa (Hillsdale Terraces) and the Township of Brock (Lakeview Manor);
- Additional resources to meet increased service demands in Disease Prevention and Health Protection programs;
- The introduction of a solid waste diversion program, including the 'Green Bin' collection and composting of residential kitchen wastes;
- Implementation of an amalgamated Durham Region Transit service (DRT), resulting in greater efficiencies and expanded services, including creation of a single fare system, and a GO Transit partnership permitting transfer between DRT and GO Transit buses; and,
- Increased funding for the five Conservation Authorities and continued funding for the University of Ontario Institute of Technology and the Rouge Valley Health Foundation.

2006 Operating Fund Expenditures
$ 701.8 million



2006 Operating Fund Sources of Financing
$ 805.9 million





Operating Fund Sources of Financing

Operating fund sources include Regional property taxes, user charges, and transfer payments from federal and provincial governments.

Revenue from property taxes increased to $407.8 million in 2006, compared to $372.1 million in 2005, representing an increase of approximately 10 percent. The 2006 Regional property tax increase represented an average residential property tax impact of 2.75 percent for the average residential property owner, when combined with the 2006 Solid Waste Management property tax requirement (excludes transit services which varied significantly depending upon the local area municipality).

Water Supply and Sanitary Sewerage

The Region is responsible for providing safe and reliable operations and maintenance of water supply and sanitary sewerage systems, which efficiently meet requirements of existing and future residents and businesses. These operations are funded primarily from Region-wide uniform user rates. Water and sewer rates and rate structure, development charge receipts and long-term capital requirements are reviewed annually to ensure efficient operations and continued viability of water supply and sanitary sewerage.

During 2006, the Region continued to develop and improve the Asset Management initiative established in 2004, which has led to comprehensive information regarding the inventory, condition, replacement value, and long-term capital requirements of the Region's water and sewer infrastructure. The Asset Management strategy will continue as an on-going corporate initiative to ensure that rehabilitation requirements for water and sewer infrastructure are adequately funded.

The Region adheres to the "user pay" principle when setting water and sanitary sewer rates. This principle results in charging water and sewer customers in proportion to costs incurred in providing those services. In 2006, a 9.25 percent water and sewer rate increase was approved to fund:

- Increased operating costs;
- Increases in labour and utility costs;
- Increased training costs to ensure compliance with Provincial regulations;
- The replacement of water mains and sanitary sewers;
- Increased disposal costs for biosolids; and,
- Increased debt costs associated with the new Courtice Water Pollution Control Plant.

Surplus from water and sewer operations is transferred to the respective Treatment Plant/Rate Stabilization Reserve Funds to finance future capital upgrades and the replacement of aging infrastructure. Balances at the end of 2006 were $43.4 million (2005 - $34.6 million) for sanitary sewer services and $25.5 million (2005 - $23.8 million) for water supply services.

Solid Waste Management

Major solid waste expenditures relate to the Region's responsibilities for waste collection, haulage, processing, disposal and diversion initiatives. The Region owns and operates a rural landfill site, three waste disposal facilities, a recycling processing facility, several household hazardous waste depots and has proactive promotional and educational programs to encourage residents to reduce, reuse, recycle and compost.

Effective January 1, 2006, the Town of Ajax joined the City of Pickering, Townships of Brock, Scugog and Uxbridge, and the Municipality of

Clarington, in transferring responsibilities for the collection of waste to the Region to implement the Region's new Integrated Waste Program, including the curbside collection of kitchen organics. The Town of Whitby and the City of Oshawa, will maintain responsibility for garbage and leaf and yard waste collection, but have partnered with the Region to implement standardized service specifications for the collection of kitchen organics Region-wide.

Commencing July 1, 2006, the newly constructed enclosed compost facility in the City of Pickering commenced operations to coincide with the launch of the weekly kitchen food and Blue Box collection programs in the Cities of Pickering and Oshawa, and the Towns of Ajax and Whitby. Due to the new diversion programs and a move to the bi-weekly collection of garbage waste, waste diversion in Durham Region increased from 36 percent in 2005 to 44 percent in 2006, and is anticipated to exceed 50 percent in 2007, the first full year of the new diversion programs in four of the urban lakeshore municipalities.

During 2006, due to a half year of the new diversion programs in the Cities of Pickering and Oshawa and the Towns of Ajax and Whitby, food and yard waste composted by the Region increased from 21,220 tonnes to 43,605 tonnes. The 2006 waste stream also included 62,263 tonnes of recycled and reused materials (a 35 percent increase over 2005), and 133,845 tonnes of garbage waste sent to landfill.

Revenue sources for the solid waste management operation consist of Solid Waste property taxes, user fees, Provincial subsidies and the sale of recyclables. Uncertainties that can lead to a surplus (or deficit) position for this operation include tonnage variances, subsidy changes, and fluctuating market prices for diversion materials. At year-end 2006, including interest earnings, the Solid Waste Management Reserve Fund, had a balance of $10.6 million.

The Solid Waste Management Budget is separate from the Region's general purposes budget and is funded by user fees and a Solid Waste Management Property Tax Rate.

Capital Fund Expenditures

Capital investment is necessary to maintain current infrastructure and provide for future requirements. In 2006, capital fund expenditures totaled $197.1 million compared to $188.5 million in 2005.

Transportation and Environmental Services (water supply and sanitary sewerage) were the highest spending categories. Major 2006 roads projects included:

- Reconstruction and widening of Taunton Road in the Towns of Ajax and Whitby and in the City of Oshawa;
- Reconstruction and widening of Harmony Road in the City of Oshawa;
- Construction of the CP Rail Grade Separation at Brock Road in the City of Pickering;
- Reconstruction of Regional Road #47 in the Township of Uxbridge; and,
- Various intersection improvements as well as major road and bridge rehabilitation projects throughout the Region.

Major 2006 water supply and sanitary sewerage capital projects included:

- Construction of the Courtice Water Pollution Control Plant (scheduled for completion in the Fall of 2007);
- Water main rehabilitation (cement lining program);
- Replacement of watermains and sanitary sewers in conjunction with Local Area Municipal roads programs;

- New feedermains;
- Upgrading of water supply facilities across the Region to comply with Ontario Drinking Water Protection regulations;
- New reservoir in the Town of Whitby; and,
- Upgrades to the existing incinerators at the Duffin Creek Water Pollution Control Plant in the City of Pickering.

Capital Fund Sources of Financing

The Region's 2006 capital spending program was financed from the operating fund, reserves and reserve funds, debentures, developer contributions, subsidies and local area municipal recoveries. In 2006, $14.7 million of new debenture debt was issued to finance regional capital programs.

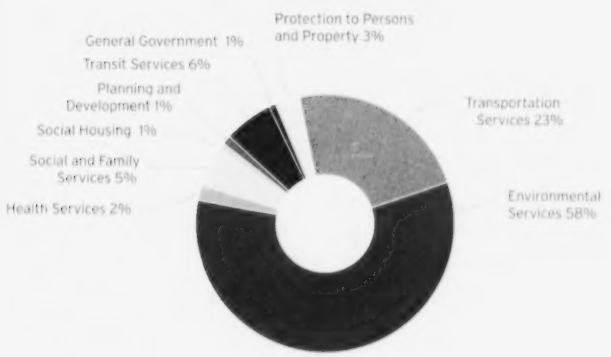
Development charges are collected from developers and are held by the Region to finance future residential and commercial growth related projects for water, sewer, roads and other specific purposes. In 2006, contributions to the capital fund from development charges totaled $40.1 million, compared to $28.8 million in 2005.

Debt Position

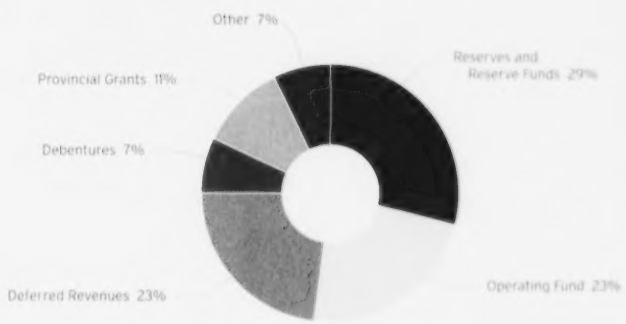
The Region's debt management policies are governed by provincial legislation and Regional Council's approval. In 2006 new debt was issued to fund the construction of the Courtice Water Pollution Control Plant. Net of debt payments made during the year, the Region's debt burden increased to $213.5 million in 2006 from $211.5 million in 2005.

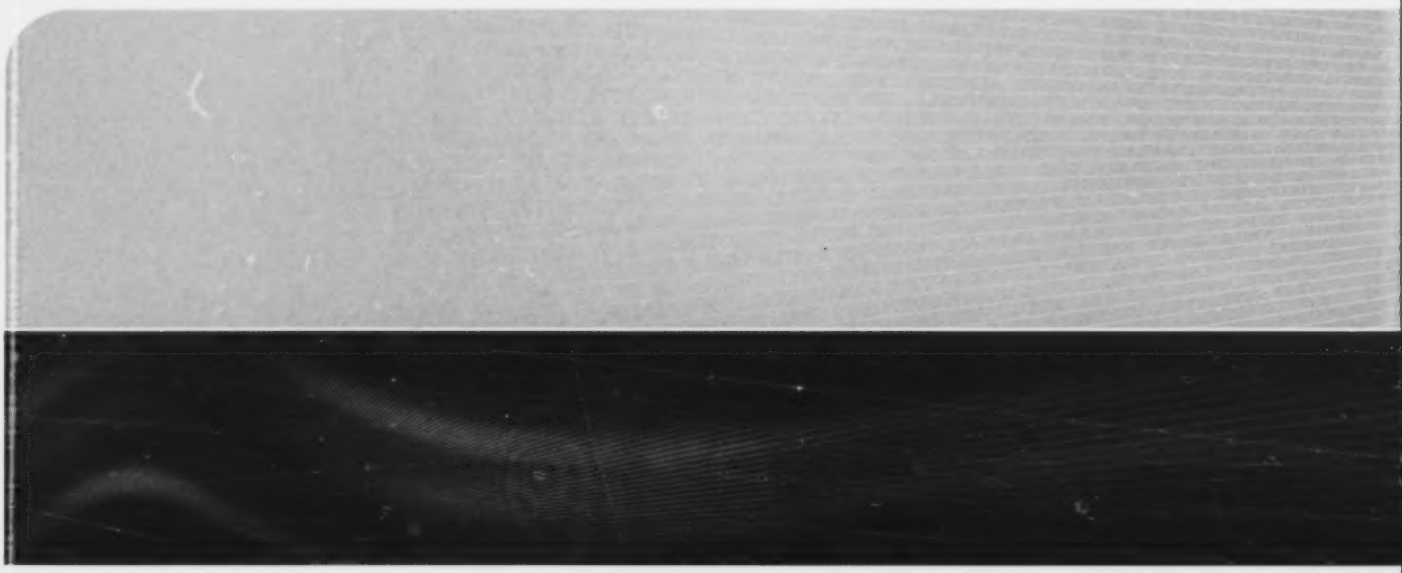
Despite recent increases to fund capital necessary to meet growth demands, the Region maintains relatively low debt levels and continues to

2006 Capital Fund Expenditures
$ 197.1 million



2006 Capital Fund Sources of Financing
$ 196.1 million





adhere to the pay-as-you-go financing philosophy, ensuring debt issuance only for major projects. The Region's strong capital structure, and solid reserves and reserve funds, also help to ensure debt is minimized.

The Region is responsible for debenture debt totaling $372.7 million at December 31, 2006. Of this debt, $159.2 million or 43 percent was issued on behalf of Durham local area municipalities and school boards, who in turn are responsible for paying the Region both principal and interest. The Region is the authorized entity for debt issuance for all local area municipalities within its jurisdictional boundaries. The net debt to be financed by the Region itself is $213.5 million.

Durham's Credit Rating

Both Standard & Poor's and Moody's Investors Service re-affirmed the Region's long standing Triple A credit rating for the Region's long-term debentures, with a continued stable outlook. The annual rating review includes consideration of the Regional economy and financial results achieved by the Region, including its eight local area municipalities.

The Region's 2006 credit fundamentals were reviewed and major credit strengths were identified, including the following:

- Assessment growth and sound management practices support financial performance;
- Capital plan limits borrowing by favouring pay-as-you-go financing;
- Stable institutional framework and operating environment;
- Creditworthiness supported by strong economic performance;
- Increased federal and provincial transfers to support Regional finances; and,
- Very strong and rising cash and investment balances.

Two of Durham Region's most important financing policies are "pay-as-you-go" capital financing and "growth pays for growth" development financing policies, which are reflected in the Region's current and long-standing Triple A credit rating. The Region will uphold these philosophies. Although significant capital outlays for infrastructure are still required over the next five years, a continued focus on internal funding will minimize future debt issuance needs.

Reserve and Reserve Funds

Recognizing their importance to the overall financial strategy, the Region continues to maintain solid reserve and reserve fund positions, ensuring maximum flexibility, minimal impacts from growth and future liabilities, and a solid foundation for the Region's pay-as-you-go financing philosophy. Regional reserve and reserve fund balances are continuously monitored to ensure they are sustained at adequate and appropriate levels to meet present and future requirements. Reserve and Reserve Funds, at December 31, 2006, totaled $358.4 million, an increase of four percent compared to the December 31, 2005 balance of $344.2 million. The majority of the Region's reserves and reserve funds are committed towards financing future capital construction costs for water supply, sanitary sewerage, Regional roads, solid waste management and future liabilities.

Reserves

At the end of 2006, the Region's reserves totaled $149.3 million, a decrease in value of $5.1 million or three percent, compared to the 2005 balance of $154.4 million.

The Region's reserves are established for specific purposes, such as providing working capital to mitigate fluctuations in annual cash flows. Two reserves provide the Region with necessary financing for future liabilities: sick leave and contingencies reserves. Other reserves have been

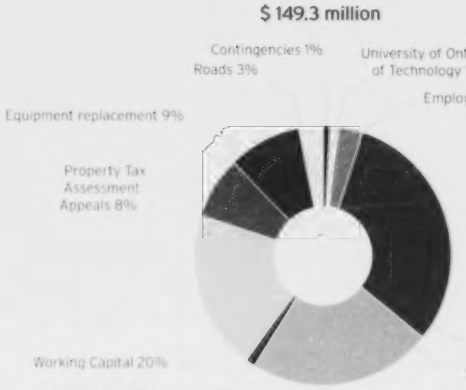
established to enable up-front financing of major capital expenditures or are used to finance projects budgeted in one year, but with construction taking place over more than a year (capital construction, Regional roads, long-term care and equipment replacement reserves).

Reserve Funds

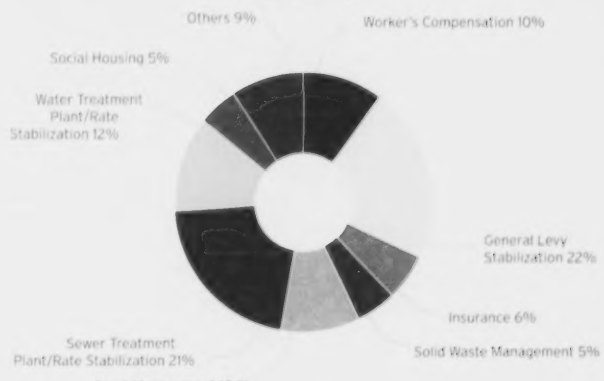
Reserve funds are monies set aside to finance specific future costs. The Region's reserve funds totaled $209.1 million at the end of 2006, an increase of $19.4 million compared to 2005. Regional Council established an Asset Management Reserve Fund in recognition of the priority of ensuring the maintenance, upgrade and replacement of aging General Purposes Program Infrastructure with minimal impacts to taxpayers. A $7.5 million transfer from the General Levy Stabilization Reserve Fund was made to this fund, to which the 2006 surplus from General Purposes operations was also dedicated by Regional Council. The enhanced Reserve Fund will assist in an overall Asset Management Strategy, in accordance with best business practices.

The Region of Durham maintains a General Levy Stabilization Reserve Fund for tax stabilization purposes, and to guard against the risk of significant unforeseen expenditures.

2006 Reserves
$ 149.3 million



2006 Reserve Funds
$ 209.1 million



Note: This chart excludes development charges/deferred revenues totaling $ 242.7 million.

Financial

Management Team

Finance Department

R.J. Clapp, CA
Commissioner of Finance and Treasurer

P.N. Richards, BBA, MBA
Director of Budgets, Economic Studies and Risk Management

M.E. Simpson, BA, MA
Director of Financial Planning

D.W. Beaton, BAS
Director of Financial Information Management Services

J.M. Cermak, CA
Director of Financial and Utility Services

R.A. Crystal, CMA
Manager of Accounting

S. Coward, BA, FCIP, CRM
Manager of Insurance and Risk Management

Auditor

Deloitte & Touche LLP Chartered Accountants

Banker

The Royal Bank of Canada

Fiscal Agents

RBC Dominion Securities Inc.

CIBC World Markets

2006 Annual Report

The Regional Municipality of Durham
Financial Information

for the year ended December 31, 2006

Durham Region

Management Report

R.J. Clapp, CA
Commissioner of Finance and Treasurer

The Management of the Corporation of the Regional Municipality of Durham is responsible for the preparation and integrity of the accompanying Consolidated Financial Statements and all other information contained in this Annual Report. The consolidated financial statements herein have been prepared in accordance with generally accepted accounting principles applicable to local governments, and conform with accounting standards established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. Where the determination of assets and liabilities is dependent upon future events, amounts are based upon reasonably determined estimates and judgements. Financial data presented elsewhere in the Annual Report is consistent with that of the Consolidated Financial Statements.

Management maintains systems for accounting, business planning and budgeting, an internal audit function, as well as other internal controls, to provide assurance that transactions are appropriately authorized and recorded accurately, that assets are secured and accounted for, and that the integrity and completeness of financial records is maintained.

The 2006 Consolidated Financial Statements, Notes to the Financial Statements, Supporting Schedules, and the Trust Funds Financial Statements have been independently audited by Deloitte & Touche LLP. The Auditors' Report on the fair presentation of Durham's financial position, results of its operation, and changes in financial position for the year ended December 31, 2006, are included in the Auditors' Reports that follow.

R.J. Clapp, CA
Commissioner of Finance and Treasurer, June 30, 2007

2006 Annual Report

Consolidated Financial Statements and Auditors' Report

for the year ended December 31, 2006

Deloitte.

Deloitte & Touche LLP
5140 Yonge Street
Suite 1700
Toronto ON M2N 6L7
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Auditors' Report

To the Members of Council, Inhabitants
and Ratepayers of the Corporation of the
Regional Municipality of Durham

We have audited the consolidated statement of financial position of the Corporation of the Regional Municipality of Durham as at December 31, 2006 and the consolidated statements of financial activities and fund balances and of changes in financial position for the year then ended. These financial statements are the responsibility of the Region's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation of the Regional Municipality of Durham as at December 31, 2006 and the results of its operations and changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
May 31, 2007

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

Consolidated Statement of Financial Position

December 31, 2006

(in thousands of dollars)

	2006	2005 Restated (Note 3)
ASSETS		
Financial Assets		
Cash and investments (Note 4)	$ 878,214	$ 815,864
Accounts receivable	66,902	56,404
Other assets	3,842	3,536
Debenture debt recoverable from local municipalities and school boards (Note 5)	159,191	139,723
	1,108,149	1,015,527
LIABILITIES		
Accounts payable and accrued liabilities	154,673	125,826
Deferred revenue - Schedule 5	242,701	213,247
Other deferred revenue	8,806	9,651
Debenture debt (Note 5)	372,697	351,228
Employee benefits and post employment liabilities (Note 7)	107,327	89,420
Landfill closure and post closure liability (Note 8)	9,092	8,064
	895,296	797,436
NET FINANCIAL ASSETS	$ 212,853	$ 218,091
MUNICIPAL POSITION		
Operating Fund - Schedule 1 (Note 14)	$ 230	$ 230
Capital Fund - Schedule 2	174,929	175,995
Reserves and Reserve Funds - Schedule 3 (Note 6)	358,464	344,144
Fund balances	533,623	520,369
Amounts to be recovered in future years (Note 9)		
From Reserves and Reserve Funds	(45,928)	(41,025)
From future revenue	(274,842)	(261,253)
	(320,770)	(302,278)
MUNICIPAL POSITION	$ 212,853	$ 218,091

The accompanying notes and schedules are an integral part of these financial statements.

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

Consolidated Statement of Financial Activities and Fund Balances

Year ended December 31, 2006

(in thousands of dollars)

	2006		2005
	Budget (Note 17)	Actual	Actual Restated (Note 3)
REVENUES			
Regional taxes (including supplementary taxes)	$ 399,120	$ 407,771	$ 372,064
User charges			
Water and sewer	105,593	108,264	102,822
Other	101,039	99,997	76,701
Fines (Note 15)	5,500	5,540	4,744
Government transfers			
Canada	11,634	11,838	11,312
Ontario	170,979	164,017	130,142
Deferred revenue earned - Schedule 5	60,136	55,242	35,760
Contributions from developers	2,173	276	1,181
Other	6,430	40,717	35,276
TOTAL REVENUES	862,604	893,662	770,002
EXPENDITURES (Note 10)			
Operating Fund - Schedule 1	702,702	701,777	608,603
Capital Fund - Schedule 2	183,948	197,123	188,481
TOTAL EXPENDITURES	886,650	898,900	797,084
NET EXPENDITURES	24,046	5,238	27,082
FINANCING ACTIVITIES			
Debt issued for Regional purposes	40,900	14,650	40,000
Regional debt principal repayments	(13,535)	(12,649)	(10,053)
Increase in unfunded employee benefits and post employment liabilities	-	15,463	5,369
Increase in landfill closure and post closure liability	-	1,028	4,691
INCREASE IN AMOUNTS TO BE RECOVERED IN FUTURE YEARS	27,365	18,492	40,007
CHANGE IN FUND BALANCES	3,319	13,254	12,925
FUND BALANCES, BEGINNING OF YEAR		520,369	507,444
FUND BALANCES, END OF YEAR		$ 533,623	$ 520,369

The accompanying notes and schedules are an integral part of these financial statements.

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

Consolidated Statement of Changes in Financial Position

Year ended December 31, 2006

(in thousands of dollars)

	2006	2005 Restated (Note 3)
OPERATIONS		
Net expenditures	$ (5,238)	$ (27,082)
Uses		
Increase in accounts receivable	(10,498)	(11,826)
Increase in other assets	(306)	(694)
Decrease in other deferred revenue	(845)	(3,061)
	(11,649)	(15,581)
Sources		
Increase in accounts payable and accrued liabilities	28,847	11,074
Increase in deferred revenue	29,454	41,907
Increase in employee benefits and post employment liabilities	17,907	5,088
Increase in landfill closure and post closure liability	1,028	4,691
	77,236	62,760
Net increase in cash from operations	60,349	20,097
FINANCING		
Debt issued for Regional purposes	14,650	40,000
Regional debt repaid	(12,649)	(10,053)
Net increase in cash from financing activities	2,001	29,947
NET CHANGE IN CASH AND INVESTMENTS	62,350	50,044
CASH AND INVESTMENTS, BEGINNING OF YEAR	815,864	765,820
CASH AND INVESTMENTS, END OF YEAR	$ 878,214	$ 815,864

The accompanying notes and schedules are an integral part of these financial statements.

1. MUNICIPAL STRUCTURE

The Regional Municipality of Durham ("the Region") came into existence on October 15, 1973 and assumed its responsibilities on January 1, 1974, under authority of the *Regional Municipality of Durham Act*, 1973, and operates as an upper tier government in the Province of Ontario, Canada.

The Region comprises the following local municipalities:

- Town of Ajax
- Township of Brock
- Municipality of Clarington
- City of Oshawa
- City of Pickering
- Township of Scugog
- Township of Uxbridge
- Town of Whitby

and is responsible for services within these local municipalities related to the following:

- Protection to persons and property, including Police, Conservation Authorities, Emergency Planning, Fire Co-ordination and 911 emergency telephone services.
- Transportation Services, including all Regional Roadways and Traffic Control.
- Public Transit Services.
- Environmental Services, including the Water Supply System, Sanitary Sewer System, Regional Storm Sewer System and Solid Waste Management.
- Health Services, including Public Health Services and Inspections.
- Emergency Medical Services.
- Social and Family Services, including Ontario Works, Services for Seniors, and Children's Services.
- Social Housing Services, including provision of subsidized housing, rent supplement programs and homeless shelters.
- Planning, including official plan administration.
- Regional Development and promotion.
- Administration, prosecution and collection of fines under the *Provincial Offences Act* (POA).
- Financial, including all debt issues and property tax policy.

2. SUMMARY OF ACCOUNTING POLICIES

The Consolidated Financial Statements of the Corporation of the Regional Municipality of Durham are representations of management prepared in accordance with local government accounting standards established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

The focus of PSAB financial statements is on the financial position of the Region and changes thereto. The Consolidated Statement of Financial Position reports financial assets and liabilities. Financial assets are available to provide resources to discharge existing liabilities or finance future operations. Municipal position represents the financial position of the municipality and is the difference between financial assets and liabilities. This information explains the Region's overall future revenue requirements and its ability to finance activities and meet its obligations.

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(a) Basis of Statement Presentation

i. The consolidated financial statements reflect activities of the Operating Fund, Reserves, Reserve Funds, and the Capital Fund of the Region, including activities of the Durham Regional Police Services Board, Durham Region Transit Commission, and the Durham Regional Local Housing Corporation. Operations of other social housing providers are not consolidated in these financial statements as the Region does not exercise control over them. Funding paid to these providers is recorded as Social Housing expenditures in the Consolidated Schedule of Operating Fund Activities and Fund Balance.

ii. Trust Funds administered by the Region are not included in these consolidated financial statements. Trust Funds are disclosed separately in the Trust Funds Statement of Financial Activities and Fund Balances and the Statement of Financial Position.

(b) Basis of Accounting

i. Accrual Basis of Accounting

Expenditures and related sources of financing are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the period in which transactions or events occurred that gave rise to the revenues; expenditures are recognized in the period the goods and services are acquired and a liability is incurred or transfers are due. Transactions between funds are recorded as interfund transfers in the supporting schedules, and are eliminated on the Consolidated Statement of Financial Position and the Consolidated Statement of Financial Activities and Fund Balances.

ii. Capital Assets

The historical cost and accumulated depreciation of capital assets are not reported for municipal purposes. Capital assets are reported as expenditures in the Consolidated Statement of Financial Activities and Fund Balances in the year of acquisition.

iii. Pension and Employee Benefits

The Region accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan. The OMERS plan specifies the retirement benefits to be received by employees based on length of service and pay rates.

Employee benefits include vacation, sick leave and certain post-employment benefits. Vacation entitlements are accrued as entitlements are earned. Sick leave benefits and other post-employment benefits are subject to actuarial valuations and are accrued in accordance with the projected benefit method, prorated on service and management's best estimate of salary escalation and retirement ages of employees. Any actuarial gains and losses related to past service of employees are amortized over the expected average remaining service life of the employee groups.

iv. Deferred Revenue

Government transfers of gas taxes and development charges collected under the *Development Charges Act, 1997* are reported as deferred revenue in the Consolidated Statement of Financial Position. These amounts will be recognized as revenues in the period in which related expenditures are incurred on qualifying capital projects.

v. Government Transfers

Government transfers are recognized in the period in which the events giving rise to the transfers occur, providing the transfers are authorized, eligibility criteria are met, and reasonable estimates of the amounts can be made.

vi. Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

3. ACCOUNTING POLICY CHANGE

Commencing in 2006, the Region adopted a policy to account for the liability associated with the non-vested portion of accumulated sick leave entitlements. Previously, only the liability for the vested portion of accumulated sick leave entitlements was recorded in the financial statements. The recording of the accumulating, non-vested sick leave benefit liability has been applied retroactively and accordingly figures for the year ended December 31, 2005 have been restated.

As a result, employee benefits and post employment liabilities to be recovered in future years have increased on the Consolidated Statement of Financial Position by $20,997 as of December 31, 2006 (2005 - $18,980), with a corresponding reduction in net financial assets. In addition, both Operating Fund expenditures and the increase in unfunded employee benefits and post employment liabilities on the Consolidated Statement of Financial Activities and Fund Balances have increased by $2,017 for the year ended December 31, 2006 (2005 - $843), and net financial assets as of January 1, 2005 have decreased by $18,137.

4. CASH AND INVESTMENTS

Included in cash and investments of $878,214 (2005 - $815,864) are temporary investments, which can be readily converted to cash. Temporary investments with a book value of $863,642 (2005 - $799,577) and a market value of $863,356 (2005 - $797,965) are recorded at the lower of cost and market value.

5. DEBENTURE DEBT

(a) Debenture debt reported on the Consolidated Statement of Financial Position is made up of the following:

	2006	2005
Total debenture debt incurred	$ 372,697	$ 351,228
Less debenture debt recoverable from local municipalities and school boards	(159,191)	(139,723)
Net Regional debenture debt	$ 213,506	$ 211,505

Interest rates for the debenture debt ranges from 2.75 percent to 10 percent, with maturities between September 2008 and October 2028. Local municipalities and school boards assumed responsibility for payment of principal and interest charges, for the principal amount shown above. The Region is contingently liable for these debentures.

5. DEBENTURE DEBT (CONTINUED)

(b) The net Regional debenture debt principal repayments required over the next five years are as follows:

	2007	2008	2009	2010	2011
Water Supply Operation	$ 3,604	$ 3,815	$ 4,040	$ 4,281	$ 4,532
Sanitary Sewerage Operation	4,498	4,703	4,925	4,668	4,879
Homes for the Aged	4,248	4,499	4,767	16,078	3,417
General Government	1,358	1,436	1,519	1,606	1,699
	$ 13,708	$ 14,453	$ 15,251	$ 26,633	$ 14,527

These payments are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

(c) Total interest charges for debenture debt reported on the Consolidated Statement of Financial Activities and Fund Balances is $12,060 (2005 - $12,252).

Of the total charges shown above, $7,317 (2005 - $7,631) was paid from general revenues of the Region, $1,645 (2005 - $1,849) was recovered from the water supply operation and $3,098 (2005 - $2,772) was recovered from the sanitary sewerage operation. These amounts are included on the Consolidated Schedule of Operating Fund Financial Activities and Fund Balance (Schedule 1) classified under the appropriate functional expenditure headings.

6. RESERVES AND RESERVE FUNDS

Reserves and Reserve Funds set aside for specific purposes by Council are comprised as follows:

	2006	2005
Reserves		
Working capital	$ 29,791	$ 28,213
Property tax assessment appeals	12,520	12,200
Equipment replacement	13,578	15,054
Regional roads	4,030	3,760
Contingencies	400	400
Sick leave	34,862	31,560
Capital	47,133	54,879
Homes for the Aged	1,133	1,133
Taunton Road capital	-	2,213
Employee benefits	4,283	3,972
University of Ontario Institute of Technology	1,585	997
Total Reserves	149,315	154,381
Total Reserve Funds (Schedule 4)	209,149	189,763
Total Reserves and Reserve Funds (Schedule 3)	$ 358,464	$ 344,144

7. EMPLOYEE BENEFITS AND POST EMPLOYMENT LIABILITIES

The Region provides certain employee benefits that require funding in future periods. These benefits include extended health and dental, sick leave, and benefits mandated under the *Workplace Safety and Insurance Act*. The accrued benefit liability and expense amounts are based on the results and assumptions determined by an actuary as at December 31, 2006. These benefits are comprised of:

	2006	2005 Restated (Note 3)
Sick leave benefits	$ 57,066	$ 51,943
Post employment benefits	39,195	28,012
Workplace safety and insurance benefits	11,066	9,465
Total employee benefits and post employment liabilities	107,327	89,420
Less: post retirement liability recognized for existing retirees	(9,155)	(6,711)
Total employee benefits and post employment liabilities to be recovered in future years	$ 98,172	$ 82,709

Significant management assumptions used in the actuarial valuations are:

Discount rate	5-6 percent
Inflation rate	2-3 percent
Dental benefit cost escalation	5 percent
Medical benefit cost escalation	10 percent reducing to 5 percent over 15 years

The Region's employee benefit liabilities include plan amendments due to the assumption of transit services by the Region, effective January 1, 2006.

(a) Sick Leave Benefits

Employees accrue sick leave benefits for future use. In addition, certain sick leave benefit plans provide for accumulation of unused benefits and employees may become entitled to a cash payment when they leave the Region's employment. Liabilities for these two components of sick leave benefits are determined by actuarial valuations, the results of which are:

Liability for sick leave benefits	2006	2005 Restated (Note 3)
Accrued benefit obligation - beginning of year	$ 50,738	$ 47,121
Increase due to assumption of transit	1,261	-
Current period benefit cost	5,090	4,742
Interest on accrued benefit obligations	2,950	2,716
Benefit payments	(4,086)	(3,841)
Accrued benefit obligation - end of year	55,953	50,738
Unamortized actuarial gain	1,113	1,205
Liability for sick leave benefits	$ 57,066	$ 51,943
Sick leave benefit expense		
Current period benefit costs	$ 5,090	$ 4,742
Interest on accrued benefit obligations	2,950	2,716
Amortization of actuarial gain	(92)	(92)
Total sick leave benefit expense	$ 7,948	$ 7,366

The actuarial gain is amortized over the expected average remaining service life of 14 years.

7. EMPLOYEE BENEFITS AND POST EMPLOYMENT LIABILITIES (CONTINUED)

(b) Post Employment Benefits

The Region provides continued benefits to qualifying employees following retirement. Benefit entitlement ceases at age of 65, with exception of Police Service employees whose entitlements ceases at age 70 and certain Transit employees whose coverage is maintained for life. The results of the update of the most recent actuarial valuation are as follows:

	2006	2005
Liability for post employment benefits		
Accrued benefit obligation - beginning of year	$ 29,837	$ 27,987
Increase due to assumption of transit	8,773	-
Current period benefit cost	1,655	1,367
Interest on accrued benefit obligations	2,315	1,684
Benefit payments	(1,700)	(1,201)
Accrued benefit obligation - end of year	40,880	29,837
Unamortized actuarial loss	(1,685)	(1,825)
Liability for post employment benefits	$ 39,195	$ 28,012
Post employment benefit expense		
Current period benefit costs	$ 1,655	$ 1,367
Interest on accrued benefit obligations	2,315	1,684
Amortization of actuarial loss	140	140
Total post employment benefit expense	$ 4,110	$ 3,191

The actuarial loss is amortized over the expected average remaining service life of 14 years.

(c) Workplace Safety and Insurance Benefits (WSIB)

The Region is a Schedule II employer under the *Workplace Safety and Insurance Act* and follows a policy of self-insurance for employees. Accordingly, the Region assumes liability for awards made under the Act, reimbursing the Workplace Safety and Insurance Board for costs relating to its workers' claims. The results of the update of the most recent actuarial valuation are as follows:

	2006	2005
Liability for WSIB		
Accrued benefit obligation - beginning of year	$ 13,963	$ 13,407
Increased due to assumption of transit	179	-
Current period benefit cost	2,325	1,834
Interest on accrued benefit obligations	851	797
Benefit payments	(2,254)	(2,075)
Accrued benefit obligation - end of year	15,064	13,963
Unamortized actuarial loss	(3,998)	(4,498)
Liability for WSIB	$ 11,066	$ 9,465
WSIB expense		
Current period benefit costs	$ 2,325	$ 1,834
Interest on accrued benefit obligations	851	797
Amortization of actuarial loss	500	500
Total WSIB expense	$ 3,676	$ 3,131

The actuarial loss is amortized over the mean term of the liabilities, which is 10 years.

8. LANDFILL CLOSURE AND POST CLOSURE LIABILITY

The Region currently owns and operates one active landfill site and six closed landfill sites. The total estimated cost (using a discount factor of 6 percent less an estimated inflation factor of 3 percent) for closure and post closure is $9,515 (2005 - $8,469). The amount reported on the Consolidated Statement of Financial Position is $9,092 (2005 - $8,064) and the amount remaining to be recognized is $423 (2005 - $405).

The Region is responsible for post closure at six inactive sites, which includes monitoring of ground and surface water, leachate and gas, ongoing maintenance and annual reporting, for a period of 40 years. Closure costs include final cover and vegetation, drainage control features, leachate control or monitoring systems, water quality monitoring systems, gas monitoring and recovery, land acquisition (buffer zones), site remediation, and site closure reports.

The liability for closure and post closure care is recognized as capacity of each site is used. For any closed sites, 100 percent of the liability is recognized. It is estimated that the remaining capacity of 186,000 cubic metres at the active site will provide landfill disposal capacity for an additional 21 years.

9. AMOUNTS TO BE RECOVERED IN FUTURE YEARS

Future years recoveries represent the requirement of the Region to raise funds in subsequent periods to finance unfunded liabilities.

	2006	2005 Restated (Note 3)
Unfunded employee benefits and post employment liabilities	$ 98,172	$ 82,709
Solid waste landfill closure and post closure liability	9,092	8,064
Net Regional debt	213,506	211,505
Total future years recoveries	320,770	302,278
Funding available from Reserves and Reserve Funds		
Sick leave reserve	34,862	31,560
Workers' compensation reserve fund	11,066	9,465
	45,928	41,025
Amounts to be recovered from future revenue	$ 274,842	$ 261,253

A portion of the amounts to be recovered in future years will be recovered from deferred revenues earned.

10. EXPENDITURES BY OBJECT

Schedules 1 and 2 present the consolidated expenditures by function. The following classifies those same expenditures by object.

	2006	2005 Restated (Note 3)
Salaries, wages and employee benefits	$ 372,709	$ 313,594
Operating materials and supplies	100,548	81,752
Contracted services	84,968	67,044
Rents and financial expenses	14,583	14,928
External transfers	116,909	119,033
Capital expenditures	197,123	188,481
Debenture interest	12,060	12,252
Total expenditures by object	$ 898,900	$ 797,084

11. PENSION AGREEMENTS

The Region contributed $18,881 (2005 - $15,687) to OMERS on behalf of approximately 4,360 regional employees, for current service. Contributions by employees were a similar amount. The Region's contributions are included on the Consolidated Schedule of Operating Fund Financial Activities and Fund Balance (Schedule 1) classified under the appropriate functional expenditure headings.

12. CONTRACTUAL OBLIGATIONS

(a) Sanitary Sewerage System

In 1997, the Regional Municipality of Durham and the Regional Municipality of York jointly purchased certain sanitary sewerage systems from the Province of Ontario and entered into a joint operating agreement, whereby Durham operates and maintains these facilities. Each co-owner is responsible for its share of operating costs based on actual sewerage flows.

(b) Lease Commitments

The Region has commitments under various building lease agreements expiring in 2007 to 2011. These operating leases require approximate annual rental payments for the next five years as follows:

2007	$ 2,076
2008	$ 1,777
2009	$ 1,422
2010	$ 1,106
2011	$ 433

(c) Capital Works Commitments

The Region has contractual obligations for capital works of approximately $62,652 (2005 - $94,205). Financing for these commitments has been approved by Regional Council.

13. CONTINGENCY

The Region has been named as defendant in certain legal actions in which damages have been sought. The outcome of these actions is not determinable as at December 31, 2006, and accordingly, no provision has been made in these financial statements for any liability that may result.

14. SOCIAL HOUSING REFORM ACT

Effective January 1, 2001, under the provisions of Bill 128 the Province of Ontario transferred the social housing units of the Ontario Housing Corporation located in the Region to the Durham Regional Local Housing Corporation (DRLHC), under the provisions of the *Ontario Business Corporations Act*, with the Regional Municipality of Durham as the sole shareholder. Financial activities of the DRLHC are reported in these consolidated financial statements.

Income producing properties acquired as a result of the transfer were originally financed by the Province of Ontario through general obligation provincial debentures. At the time of the transfer of ownership of the DRLHC to the Region, the Province did not transfer the responsibility for the repayment of the debentures. Accordingly, neither the value of the income producing properties nor the value of the related provincial debentures was recorded on the DRLHC's financial statements. The remaining assets and liabilities acquired were recorded at book value resulting in a contributed surplus of $230.

15. PROVINCIAL OFFENCES ADMINISTRATION

Effective December 4, 2000, the Region assumed responsibility for administering collection of revenues arising under the *Provincial Offences Act* (POA) from the Ministry of the Attorney General. The Region performs court support, administration and collection functions for all related fines and fees and prosecutes matters under the POA. The POA is a procedural law for administering and prosecuting provincial offences, including those committed under the *Highway Traffic Act, Compulsory Automobile Insurance Act, Trespass to Property Act, Liquor Licence Act*, municipal by-laws and minor federal offences. Offenders may pay their fines at any Provincial Offences court office in Ontario, at which time their receipts are recorded in the Integrated Courts Operation Network system ("ICON"). The Region recognizes fine revenue when the receipt of funds is recorded in ICON, regardless of the location where payment is made.

Gross revenues, consisting of fines levied under parts I and III (including delay penalties), for POA charges total $5,540 (2005 - $4,744). Net revenues amount to $1,397 (2005 - $744). Local municipalities share 60 percent of net revenues and the Region retains 40 percent or $558 (2005 - $298).

16. TRUST FUNDS

Trust Funds administered by the Region, totalling $814 (2005 - $841), have not been included in the Consolidated Statement of Financial Position nor have their operations been included in the Consolidated Statement of Financial Activities and Fund Balances.

17. OPERATING AND CAPITAL FUNDS BUDGETS

The operating and capital budgets, as approved by Regional Council, for 2006 are reflected on the Consolidated Statement of Financial Activities and Fund Balances, Consolidated Schedule of Operating Fund Financial Activities and Fund Balance, and the Consolidated Schedule of Capital Fund Financial Activities and Fund Balance. The budgets established for Capital Fund operations are on a project-oriented basis, the costs of which may be carried out over one or more years and, therefore, may not be comparable with current year's actual amounts. As well, the Region does not budget activity within Reserves and Reserve Funds, with the exception being those transactions, which affect either the Operating or Capital Funds. Budget figures have been reclassified for the purposes of these financial statements to comply with PSAB reporting requirements.

18. GUARANTEES

In the normal course of business, the Region enters into agreements that meet the definition of a guarantee. The Region's primary guarantees subject to the disclosure requirements include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements.

These indemnification agreements may require the Region to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Region from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability, which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Region has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the Consolidated Statement of Financial Position with respect to these agreements.

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

Consolidated Schedule of Operating Fund Financial Activities and Fund Balance

Schedule 1

Year ended December 31, 2006

(in thousands of dollars)

	2006		2005
	Budget (Note 17)	Actual	Actual Restated (Note 3)
REVENUES			
Regional taxes (including supplementary taxes)	$ 399,120	$ 407,771	$ 372,064
User charges			
Water and sewer	105,593	108,264	102,822
Other	101,039	99,997	76,701
Fines	5,500	5,540	4,744
Government transfers			
Canada	11,634	11,838	11,312
Ontario	160,373	142,665	130,142
Deferred revenue earned - Schedule 5	10,411	10,247	6,949
Other	4,725	19,602	20,019
TOTAL REVENUES	798,395	805,924	724,753
EXPENDITURES			
General government	28,880	31,350	36,826
Protection to persons and property	147,221	149,222	139,517
Transportation services	23,464	26,496	23,976
Transit	41,297	53,215	7,199
Environmental services	137,654	134,508	125,922
Health services	58,772	55,860	50,370
Social and family services	208,658	193,902	171,253
Social housing	50,413	51,159	47,806
Planning and development	6,343	6,065	5,734
TOTAL EXPENDITURES	702,702	701,777	608,603
NET REVENUES	95,693	104,147	116,150
FINANCING ACTIVITIES			
Debt principal repayments	(13,535)	(12,649)	(10,053)
Increase in unfunded employee benefits and post employment liabilities	-	15,463	5,369
Increase in landfill closure and post closure liability	-	1,028	4,691
Transfer from Reserves and Reserve Funds	9,504	13,082	39,895
Transfer to Capital Fund	(52,763)	(45,580)	(84,728)
Transfer to Reserves and Reserve Funds	(38,899)	(75,491)	(71,324)
NET FINANCING ACTIVITIES AND TRANSFERS	(95,693)	(104,147)	(116,150)
CHANGE IN FUND BALANCE		-	-
FUND BALANCE, BEGINNING OF YEAR		230	230
FUND BALANCE, END OF YEAR (Note 14)		$ 230	$ 230

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

Consolidated Schedule of Capital Fund Financial Activities and Fund Balance

Schedule 2

Year ended December 31, 2006

(in thousands of dollars)

	2006		2005
	Budget (Note 17)	Actual	Actual
REVENUES			
Deferred revenue earned - Schedule 5	$ 49,725	$ 44,995	$ 28,811
Provincial Grants	10,606	21,352	-
Contribution from developers	2,173	276	1,181
Other	1,705	13,431	9,492
TOTAL REVENUES	64,209	80,054	39,484
EXPENDITURES			
General government	1,971	2,199	35,576
Protection to persons and property	16,504	5,562	5,541
Transportation services	51,675	45,457	31,275
Transit	21,563	11,930	-
Environmental services	84,529	115,172	80,402
Health services	3,008	4,346	1,697
Social and family services	2,824	10,778	32,806
Social housing	1,786	1,584	1,103
Planning and development	88	95	81
TOTAL EXPENDITURES	183,948	197,123	188,481
NET EXPENDITURES	(119,739)	(117,069)	(148,997)
FINANCING ACTIVITIES			
Proceeds from long term debt	40,900	14,650	40,000
Transfer from Operating Fund	52,763	45,580	84,728
Transfer from Reserves and Reserve Funds	26,076	55,773	32,971
NET FINANCING ACTIVITIES AND TRANSFERS	119,739	116,003	157,699
CHANGE IN FUND BALANCE		(1,066)	8,702
FUND BALANCE, BEGINNING OF YEAR		175,995	167,293
FUND BALANCE, END OF YEAR		$ 174,929	$ 175,995

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

Consolidated Schedule of Reserves and Reserve Funds Financial Activities and Fund Balance — Schedule 3

Year ended December 31, 2006

(in thousands of dollars)

	2006		2005
	Budget (Note 17)	Actual	Actual
REVENUES			
Interest	$ -	$ 7,684	$ 5,765
TOTAL REVENUES	-	7,684	5,765
TRANSFERS			
Transfer from Operating Fund	38,899	75,491	71,324
Transfer to Capital Fund	(26,076)	(55,773)	(32,971)
Transfer to Operating Fund	(9,504)	(13,082)	(39,895)
NET TRANSFERS	3,319	6,636	(1,542)
CHANGE IN FUND BALANCE	3,319	14,320	4,223
FUND BALANCE, BEGINNING OF YEAR		344,144	339,921
FUND BALANCE, END OF YEAR		$ 358,464	$ 344,144

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

Consolidated Schedule of Continuity of Reserve Funds

Schedule 4

Year ended December 31, 2006

(in thousands of dollars)

		REVENUES/CONTRIBUTIONS				TRANSFERS				
	BALANCE, BEGINNING OF YEAR	Interest on Investments	From Operating Fund	Other	Total	To Operating Fund	To Capital Fund	Other	Total	BALANCE, END OF YEAR
	$	$	$	$	$	$	$	$	$	$
Treatment plant/rate stabilization										
Sanitary sewerage	34,591	1,342	7,469	-	8,811	-	-	-	-	43,402
Water supply	23,824	903	2,772	-	3,675	-	2,000	-	2,000	25,499
Regional share of non-residential development										
Sanitary Sewage Works	3,599	138	-	-	138	-	-	-	-	3,737
Water supply	2,830	108	-	-	108	-	-	-	-	2,938
Solid waste management	14,734	530	650	-	1,180	871	4,415	-	5,286	10,628
General levy stabilization	57,060	2,182	10,260	-	12,442	1,380	15,000	7,500	23,880	45,622
Industrial land	1,096	45	188	-	233	-	-	-	-	1,329
Foreign exchange	4,068	155	-	-	155	-	-	-	-	4,223
Workers' compensation	19,555	769	916	-	1,685	11	-	-	11	21,229
York/Durham sanitary sewage	4,184	167	200	-	367	-	400	-	400	4,151
Insurance	12,267	446	1,534	-	1,980	1,216	-	-	1,216	13,031
Social housing	8,276	352	1,123	-	1,475	81	-	-	81	9,670
Roads rehabilitation	500	300	7,330	-	7,630	-	7,266	-	7,266	864
Asset Management	904	116	11,953	7,500	19,569	-	580	-	580	19,893
Other miscellaneous reserve funds	2,275	131	2,584	-	2,715	505	1,552	-	2,057	2,933
Total	189,763	7,684	46,979	7,500	62,163	4,064	31,213	7,500	42,777	209,149

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

Consolidated Schedule of Deferred Revenue

Schedule 5

Year ended December 31, 2006

(in thousands of dollars)

	BALANCE, BEGINNING OF YEAR	INCREASE IN DEFERRED REVENUE				APPLICATION OF DEFERRED REVENUE			BALANCE, END OF YEAR
		Interest	Government Transfer	Development Charges Collected	Total	To Operating Fund	To Capital Fund	Total	
	$	$	$	$	$	$	$	$	$
Development Charges									
Residential & Commercial									
Sanitary sewerage	56,392	1,294	-	16,336	17,630	3,684	17,837	21,521	52,501
Water supply	90,958	2,844	-	21,391	24,235	4,228	6,046	10,274	104,919
Roads	46,404	1,336	-	18,049	19,385	-	11,255	11,255	54,534
Transit	-	136	-	5,679	5,815	-	959	959	4,856
Residential									
Waste	4,494	172	-	-	172	-	-	-	4,666
Police	4,220	177	-	831	1,008	175	-	175	5,053
Homes for the Aged	693	33	-	335	368	203	-	203	858
Development Charge Study	168	7	-	40	47	2	-	2	213
GO Transit	4,115	154	-	2,609	2,763	7	4,040	4,047	2,831
Emergency Medical Services	850	40	-	379	419	-	-	-	1,269
Federal Gas Tax	4,953	257	6,455	-	6,712	-	3,051	3,051	8,614
Provincial Gas Tax	-	53	6,089	-	6,142	1,948	1,807	3,755	2,387
Total	213,247	6,503	12,544	65,649	84,696	10,247	44,995	55,242	242,701

2006 Annual Report

Trust Funds: Financial Statements and Auditors' Report

for the year ended December 31, 2006

Deloitte.

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Auditors' Report

To the Members of Council, Inhabitants
and Ratepayers of the Corporation of the
Regional Municipality of Durham

We have audited the statement of financial position of the trust funds of the Corporation of the Regional Municipality of Durham as at December 31, 2006 and the statement of financial activities and fund balances for the year then ended. These financial statements are the responsibility of the Region's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the trust funds of the Corporation of the Regional Municipality of Durham as at December 31, 2006 and the results of their operations and their cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
May 31, 2007

Member of
Deloitte Touche Tohmatsu

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

Trust Funds: Statement of Financial Position

December 31, 2006

(in thousands of dollars)

	2006						2005
	Homes for the Aged			Social	Miscellaneous		
	Residents	Donations	Bequests	Services	Donations	Total	Total
FINANCIAL ASSETS							
Cash and investments	$ 440	$ 143	$ 149	$ 7	$ 75	$ 814	$ 841
FUND BALANCES	$ 440	$ 143	$ 149	$ 7	$ 75	$ 814	$ 841

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

Trust Funds: Statement of Financial Activities and Fund Balances

Year ended December 31, 2006

(in thousands of dollars)

	2006							2005
	Homes for the Aged			Social	Miscellaneous	Campbell		
	Residents	Donations	Bequests	Services	Donations	Bequest	Total	Total
REVENUES								
Residents	$ 1,300	$ 30	$ 2	$ -	$ -	$ -	$ 1,332	$ 1,487
Recipients	-	-	-	27	1	-	28	32
Interest earned	17	5	6	-	1	-	29	21
TOTAL REVENUES	1,317	35	8	27	2	-	1,389	1,540
EXPENDITURES ON BEHALF OF								
Residents	1,357	27	1	-	-	-	1,385	1,554
Recipients	-	-	-	26	4	1	31	33
TOTAL EXPENDITURES	1,357	27	1	26	4	1	1,416	1,587
NET (EXPENDITURES) REVENUES	(40)	8	7	1	(2)	(1)	(27)	(47)
FUND BALANCES, BEGINNING OF YEAR	480	135	142	6	77	1	841	888
FUND BALANCES, END OF YEAR	$ 440	$ 143	$ 149	$ 7	$ 75	$ -	$ 814	$ 841

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

Notes to the Trust Funds Financial Statements

December 31, 2006

1. ACCOUNTING POLICIES

The financial statements of the trust funds of the Corporation of the Regional Municipality of Durham are the representations of management prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

Basis of Accounting:

Revenues are recorded in the period in which the transactions or events occurred that gave rise to the revenue. Expenditures are recorded in the period the goods and services are acquired and a liability is incurred.

Investments:

Investments are recorded at cost. The cost of investments approximates their fair market value.

Use of Estimates:

The preparation of the periodic financial statements in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures during the period. Actual results could differ from these estimates.

2. STATEMENT OF CASH FLOWS

A statement of cash flows has not been included in these financial statements as the information that would be provided is readily available from the information presented.

2006 Annual Report

The Regional Municipality of Durham
Statistical Review: 2002 to 2006

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

STATISTICAL REVIEW (UNAUDITED)

Years ended 2002 to 2006

(in thousands of dollars)

	2006	Restated 2005	2004	2003	2002
	$	$	$	$	$
CURRENT OPERATIONS					
Analysis of Revenues					
Regional taxes	407,771	372,064	341,532	312,463	286,263
User charges					
Water and sewer	108,264	102,822	92,542	85,913	82,786
Other	99,997	76,701	75,308	59,508	54,603
Fines	5,540	4,744	5,495	5,592	5,285
Government Transfers					
Canada	11,838	11,312	10,409	10,391	8,800
Ontario	142,665	130,142	113,570	108,006	106,943
Deferred revenue earned	10,247	6,949	6,493	6,417	6,419
Other	19,602	20,019	22,693	20,239	21,334
TOTAL REVENUES	805,924	724,753	668,042	608,529	572,433
Analysis of Expenditures by Object					
Salaries, wages and employee benefits	372,709	313,594	288,299	258,920	219,279
Operating and general expenditures	200,099	163,724	155,431	137,687	125,817
External transfers	116,909	119,033	111,857	110,280	107,050
Debenture interest	12,060	12,252	8,924	6,799	5,644
TOTAL EXPENDITURES	701,777	608,603	564,511	513,686	457,790
Analysis of Expenditures by Function					
General government	31,350	36,826	26,987	25,563	17,277
Protection to persons and property	149,222	139,517	128,469	115,642	99,511
Transportation services	26,496	23,976	28,723	27,335	23,329
Transit	53,215	7,199	n/a	n/a	n/a
Environmental services	134,508	125,922	114,981	99,556	90,353
Health services	55,860	50,370	45,937	40,551	34,490
Social and family services	193,902	171,253	165,101	152,610	142,958
Social housing	51,159	47,806	48,885	47,170	45,079
Planning and development	6,065	5,734	5,428	5,259	4,793
TOTAL EXPENDITURES	701,777	608,603	564,511	513,686	457,790
NET REVENUES	104,147	116,150	103,531	94,843	114,643

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

STATISTICAL REVIEW (UNAUDITED)

Years ended 2002 to 2006

(in thousands of dollars)

	2006	Restated 2005	2004	2003	2002
	$	$	$	$	$
CURRENT OPERATIONS (continued)					
Financing Activities and Transfers					
Debt principal repayments	(12,649)	(10,053)	(7,604)	(7,484)	(6,639)
Inc/(Decr) in unfunded employee benefits and post employment liabilities	15,463	5,369	4,454	(805)	(3,851)
Increase in landfill closure and post closure liability	1,028	4,691	102	91	20
Transfer from Reserves and Reserve Funds	13,082	39,895	19,876	8,518	3,552
Transfer to Capital Fund	(45,580)	(84,728)	(63,754)	(46,523)	(43,700)
Transfer to Reserves and Reserve Funds	(75,491)	(71,324)	(56,605)	(48,640)	(64,025)
NET FINANCING ACTIVITIES AND TRANSFERS	(104,147)	(116,150)	(103,531)	(94,843)	(114,643)
CHANGE IN FUND BALANCE	-	-	-	-	-
FUND BALANCE, BEGINNING OF YEAR	230	230	230	230	230
FUND BALANCE, END OF YEAR	230	230	230	230	230

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

STATISTICAL REVIEW (UNAUDITED)

Years ended 2002 to 2006

(in thousands of dollars)

	2006	2005	2004	2003	2002
	$	$	$	$	$
CAPITAL OPERATIONS					
Analysis of Revenues					
Government transfers					
Ontario	21,352	-	-	-	461
Deferred revenue earned	44,995	28,811	38,364	14,620	19,859
Contribution from developers	276	1,181	670	366	327
Other	13,431	9,492	17,055	11,798	6,685
TOTAL REVENUES	80,054	39,484	56,089	26,784	27,332
Analysis of Expenditures by Function					
General government	2,199	35,576	37,419	17,533	3,098
Protection to persons and property	5,562	5,541	8,573	12,924	7,188
Transportation services	45,457	31,275	29,788	37,058	36,083
Transit	11,930	n/a	n/a	n/a	n/a
Environmental services	115,172	80,402	50,231	32,559	33,863
Health services	4,346	1,697	3,615	4,697	2,341
Social and family services	10,778	32,806	21,793	5,359	11,785
Social housing	1,584	1,103	1,876	980	1,567
Planning and development	95	81	148	113	317
TOTAL EXPENDITURES	197,123	188,481	153,443	111,223	96,242
NET EXPENDITURES	(117,069)	(148,997)	(97,354)	(84,439)	(68,910)
Financing Activities and Transfers					
Proceeds from debentures	14,650	40,000	71,622	40,000	-
Transfer from Operating Fund	45,580	84,728	63,754	46,523	43,700
Transfer from Reserves and Reserve Funds	55,773	32,971	38,721	32,485	23,854
NET FINANCING AND TRANSFERS	116,003	157,699	174,097	119,008	67,554
CHANGE IN FUND BALANCE	(1,066)	8,702	76,743	34,569	(1,356)
FUND BALANCE, BEGINNING OF YEAR	175,995	167,293	90,550	55,981	57,337
FUND BALANCE, END OF YEAR	174,929	175,995	167,293	90,550	55,981

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

STATISTICAL REVIEW (UNAUDITED)

Years ended 2002 to 2006

(in thousands of dollars)

	2006	2005	2004	2003	2002
	$	$	$	$	$
RESERVES AND RESERVE FUNDS					
Interest	7,684	5,765	4,999	6,123	4,986
TOTAL REVENUE	7,684	5,765	4,999	6,123	4,986
Transfers					
Transfer from Operating Fund	75,491	71,324	56,605	48,640	64,025
Transfer to Capital Fund	(55,773)	(32,971)	(38,721)	(32,485)	(23,854)
Transfer to Operating Fund	(13,082)	(39,895)	(19,876)	(8,518)	(3,552)
NET TRANSFERS	6,636	(1,542)	(1,992)	7,637	36,619
CHANGE IN FUND BALANCE	14,320	4,223	3,007	13,760	41,605
FUND BALANCE, BEGINNING OF YEAR	344,144	339,921	336,914	323,154	281,549
FUND BALANCE, END OF YEAR	358,464	344,144	339,921	336,914	323,154

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

STATISTICAL REVIEW (UNAUDITED)

Years ended 2002 to 2006

(in thousands of dollars)

	2006	2005	2004	2003	2002
	$	$	$	$	$
OBLIGATIONS					
Debt Incurred					
Total debenture debt	372,697	351,228	297,809	215,170	192,140
Debt assumed by others**	(159,191)	(139,723)	(116,251)	(97,630)	(107,116)
Net regional debt	213,506	211,505	181,558	117,540	85,024
Recovered from:					
Tax levy/user rates	168,854	165,442	145,304	80,438	44,639
Other/Reserve Funds	44,652	46,063	36,254	37,102	40,385
	213,506	211,505	181,558	117,540	85,024
Net regional debt per capita ($)	362	361	317	211	156
Net regional debt percentage of total expenditures (%)	23.8	26.5	25.3	18.8	15.3
Debt Servicing					
Debt servicing payments	24,709	22,305	16,528	14,283	12,283
Debt servicing as percentage of operating expenditures (%)	3.5	3.7	2.9	2.8	2.7
Annual debt repayment limit	107,334	103,250	94,529	88,373	81,294
TAXABLE ASSESSMENT (in millions)***					
Residential and farm (including multiple residentials)	45,011	38,959	37,589	32,313	28,280
Industrial and commercial	5,954	5,191	5,016	4,613	4,049
Farmland	1,063	978	984	887	696
Other	176	199	194	165	144
Total	52,204	45,327	43,783	37,978	33,169
Assessment analysis					
Annual tax assessment growth rate (%)	3.0	3.4	3.1*	3.0*	3.9

* Revised

** School boards and local municipalities

*** Current value assessment include provincially mandated reassessments for 2003, 2004 and 2006

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

STATISTICAL REVIEW (UNAUDITED)

Years ended 2002 to 2006

	2006	2005	2004	2003	2002
Miscellaneous Information					
Full time employees	4,022	3,767	3,724	3,589	3,183
Building permit values ($ millions)**	1,548	1,558	1,304	1,739	1,176
Average monthly social assistance case load	6,568	6,010	5,753	5,605	5,898
Kilometres of roads	2,119	2,115	2,111	2,094	2,087
Annual volume of treated wastewater (megalitres)	77,749	75,604	75,593	73,838	69,763
Annual supply of treated drinking water (megalitres)	72,534	78,012	74,772	75,111	73,558
Annual disposal of residential solid waste (metric tonnes)	133,896	148,709	149,424	144,937	145,752
Annual diversion of residential solid waste (metric tonnes)	105,767	83,317	78,873	86,537	60,403
Regular service passenger Transit trips (000's)	6,942 *	n/a	n/a	n/a	n/a
Tax collection rate**	96.0	96.0	95.8	95.3	94.4
	$	$	$	$	$
Benchmark Information					
Operating costs for police services per capita	203	191	179	169	157
Operating costs for paved (hard top) roads per paved lane kilometre	1,657	1,615	1,458	1,457	1,134
Operating costs for winter maintenance of roadways per lane kilometre maintained in winter	3,067	4,275	3,436	3,419	1,972
Operating costs for collection, treatment and disposal of wastewater per megalitre	441	368	370	344	305
Operating costs for treatment and distribution of drinking water per megalitre	476	415	411	370	341
Operating costs for solid waste disposal per tonne	109	101	89	90	93
Operating costs for solid waste diversion (recycling) per tonne	117	92	85	78	78
Demographics ***					
Population	589,850	577,400	563,410	549,815	536,575
Households	196,405	191,500	186,060	180,790	175,675

* Transit was transferred to the Region from the local area municipalities on January 1, 2006

** Lower-tiered municipalities are responsible for collecting taxes and issuing building permits

*** Source: Estimated by Durham Region Planning Department at May 31st of each year. Estimates will be updated to reflect 2006 Census data, including undercount information anticipated to be available from Statistics Canada in early 2008.

THE CORPORATION OF THE REGIONAL MUNICIPALITY OF DURHAM

STATISTICAL REVIEW (UNAUDITED)

Year ended December 31, 2006

Principle Corporate Taxpayers (alphabetical order)

- A.G.S. Automotive
- Blue Circle Canada Ltd.
- Enbridge Gas Distribution
- General Motors of Canada Ltd.
- Gerdau-AmeriSteel Corp.
- Johnson Controls
- Lear Corporation
- Loblaws Properties Limited
- Messier-Dowty Inc.
- Ontario Power Generation
- TDS Automotive Systems

Data sources for the 5-year review are as follows:
Financial Reports and Financial Information Returns of the Regional Municipality of Durham,
Statistics Canada and the Durham Region Planning and Economic Development and Tourism departments.

The Regional Municipality of Durham
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